

# UTTAR PRADESH ECONOMY: POTENTIAL, CONSTRAINTS AND CHALLENGES

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U.P. - Economic dev.  
Uttar Pradesh Economy

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## I. Introduction

The state of Uttar Pradesh sprawling over 2.41 lakh sq. km. of area across the heartland of India is the most populated and fourth largest state of the country. With a population of 16.61 crore as per 2001 census the state is the sixth largest political entity in the world. Nearly 80 per cent population of U.P. resides in rural area. Administratively the State is organized into 70 districts, 300 tehsils (sub divisions) and 820 development blocks. It has 628 urban local bodies and 52,000 village panchayats covering 97,942 inhabited villages. For purposes of planning the state is divided into four economic regions viz. Western region, Central region, Eastern region and Southern region called Bundelkhand. Geographically, the first three regions fall in the fertile Gangetic plains, while Bundelkhand forms part of the dry and rocky southern plateau.

Uttar Pradesh had once occupied a pre-eminent place in the polity and economy of the country (Singh 2008). It was a major producer of foodgrains in the country and home to a large number of modern and traditional industries. U.P. has the reputation of a well governed state. It produced a galaxy of brilliant intellectuals, bureaucrats and political leaders of high stature. Till 1990 almost all the Prime Ministers of India came from Uttar Pradesh with a few exceptions.

In recent years U.P. has slipped down from the eminent position it enjoyed earlier. It is counted among the BIMARU or the sick states, which are pulling down the rapid progress of the country. Today, U.P. presents a dismal scenario with regard to economic and human development. It is characterized by low levels of per capita income, high incidence of poverty, sluggish economic growth, high population pressure with high rates of population growth, widespread illiteracy, high birth rates and high IMR. U.P. ranks among the bottom states in terms of socio-economic development indicators (see Table 1). In fact, U.P.'s position in many of the indicators is comparable with those prevalent in some countries of Sub Saharan Africa (Dreze and Gazdar 1996). The state is also marked by wide inter-regional as well as intra-regional disparities in the socio-economic development levels (Singh 2000).

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Similarly, sharp disparities are also found among social and religious groups in terms of economic and social development. The state has a large proportion of weaker sections including SCs, OBCs and Muslims, who are lagging in human development for a number of social and economic factors (see UPHDR 2003, Ch. 7).

**Table 1: Select Socio-Economic Development Indicators for UP and The Major States of India**

States	IMR	Life Expectancy	Literacy Rate		Sex Ratio 0 to 6 yrs	Per Capita NSDP (Rs)	% Persons below Poverty Line
			Total	Female			
	2005	2003	2001	2001	2001	2003-04	2004-05
Andhra Pradesh	57	63.7	61.11	51.17	978	21372	15.8
Assam	68	58.0	64.28	56.03	932	12821	19.7
Bihar	61	61.0	47.53	33.57	921	7319	41.4
Gujarat	54	63.5	69.97	58.6	921	26672	16.8
Haryana	60	65.4	68.59	56.31	861	29504	14.0
Karnataka	50	64.6	67.04	57.45	964	21238	25.0
Kerala	14	73.6	90.92	87.86	1,058	13722	15.0
Madhya Pradesh	76	57.1	64.11	50.28	920	14784	38.3
Maharashtra	36	66.4	77.27	67.51	922	13732	30.8
Orissa	75	58.7	63.61	50.97	972	12645	46.4
Punjab	44	68.6	69.95	63.55	874	28607	8.4
Rajasthan	68	61.3	61.03	44.34	922	15738	22.1
Tamil Nadu	37	65.4	73.47	64.55	986	23358	22.5
Uttar Pradesh	73	59.3	57.36	42.98	898	11534	32.8
<b>Rank of UP</b>	<b>(13)</b>	<b>(12)</b>	<b>(14)</b>	<b>(14)</b>	<b>(13)</b>	<b>(14)</b>	<b>(12)</b>
West Bengal	38	64.1	69.22	60.22	934	20548	24.7
<b>India</b>	<b>58</b>	<b>62.7</b>	<b>65.38</b>	<b>54.16</b>	<b>933</b>	<b>20936</b>	<b>27.5</b>

Source: Government of India, Economic Survey (Annual), Ministry of Finance

The present paper examines the poor growth performance of the state in the recent years and discusses the potential and constraints on development in the state. It also identifies the main development challenges which need to be addressed and offers some suggestions in that direction. The basic contention of the author is that the poor economic performance of U.P. is due to the low levels of investment and decline in the quality of governance over the years. The structure of the paper is as follows. We begin with a discussion of the recent growth experience of the state in Section II. Section III highlights the resource potential of the state in terms of natural, human and livestock resources. This is followed by a brief discussion of the two main productive sectors of the state economy, that is, agriculture and industry in Section IV.

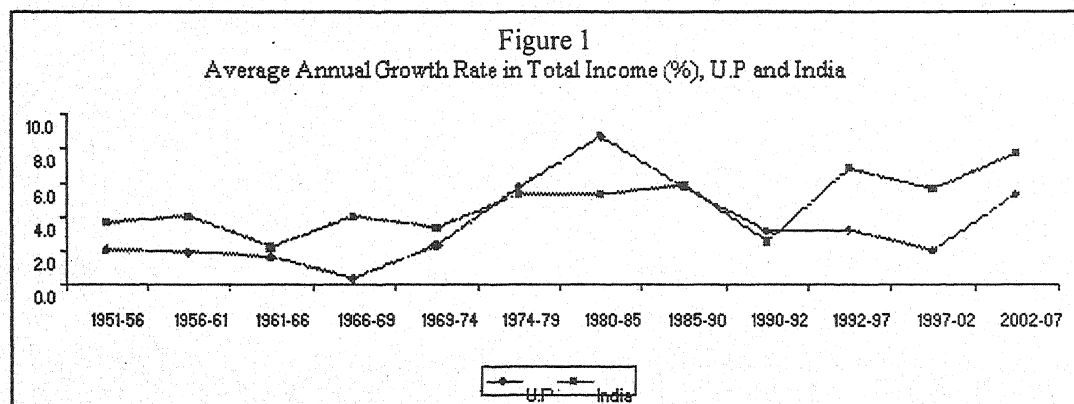
Section V highlights the regional disparities in economic and social development within the state. Section VII focuses on the main constraints on development in the state including infrastructural bottlenecks, policy related constraints as well as institutional constraints and governance issues. In the final section some suggestions are given to put the state on a high growth path.

## II. Recent Growth Experience

From the point of view of economic growth U.P. economy has moved through four different periods:

Period I (1951 to 1975)	Period of Economic Stagnation
Period II (1975 to 1990)	Period of Accelerated Growth
Period III (1990 to 2002)	Period of Deceleration
Period IV (2002 to 2007)	Period of Slow Recovery

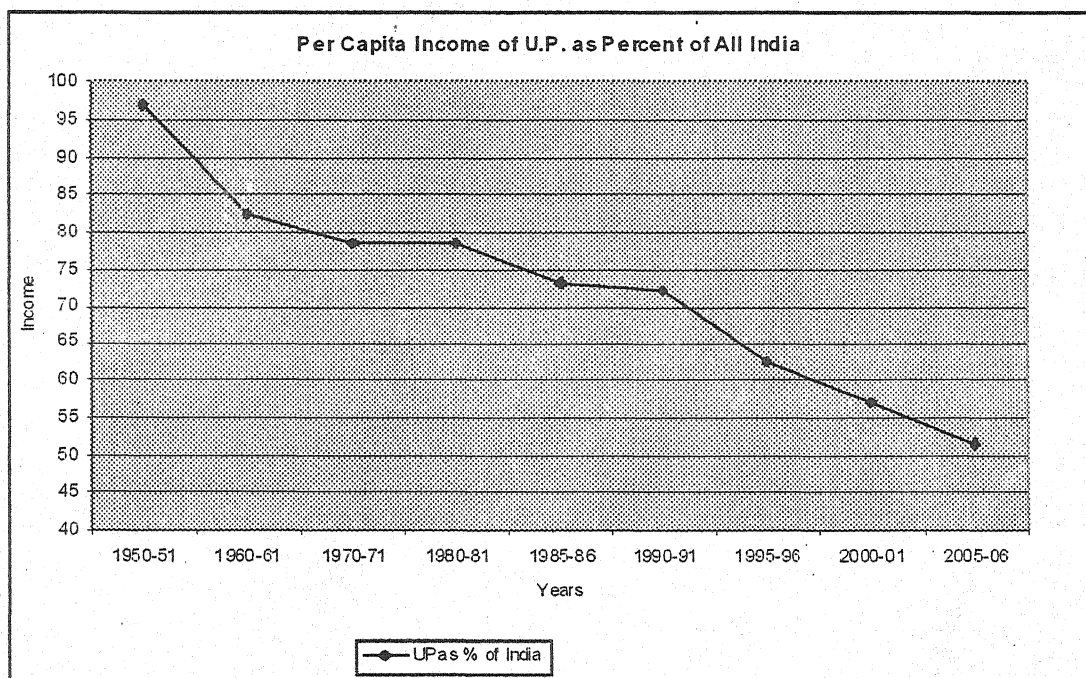
During the first twenty five years of economic planning U.P.'s economic growth was extremely low at around 2 to 2.5 percent per annum, which was hardly above the population growth of the state (Singh 1987 and 2002). Growth rates in U.P. picked up since the Fifth Plan period and caught up with the national growth rate in the Sixth and the Seventh plan period (Figure 1). However, since the beginning of the nineties growth rate in U.P. decelerated markedly and remained hardly around 3 per cent per annum. There seems to be some revival of growth rates in the recent period. Thus, growth rate of SDP which was only 2.0 per cent in the Ninth Plan (1997-02) jumped to 6.3 per cent per annum in the Tenth Plan (2002-07).



Source: *Eleventh Five Year Plan of Uttar Pradesh and Annual Plan 2007-08*,  
Planning Commission, Government of U.P.

Thus, except for a brief interlude in the eighties the growth rate of the U.P. economy has remained markedly below that in the country as a whole. This has resulted in ever widening divergence between the national and the state per capita income. Per capita income of U.P., which was almost equal to the national average at the beginning of the planning period, is now almost half of that now (Figure 2). In other words, if U.P. economy had grown at the same rate as the Indian economy, its present per capita income would have been almost double of the present level and poverty levels would have been much lower.

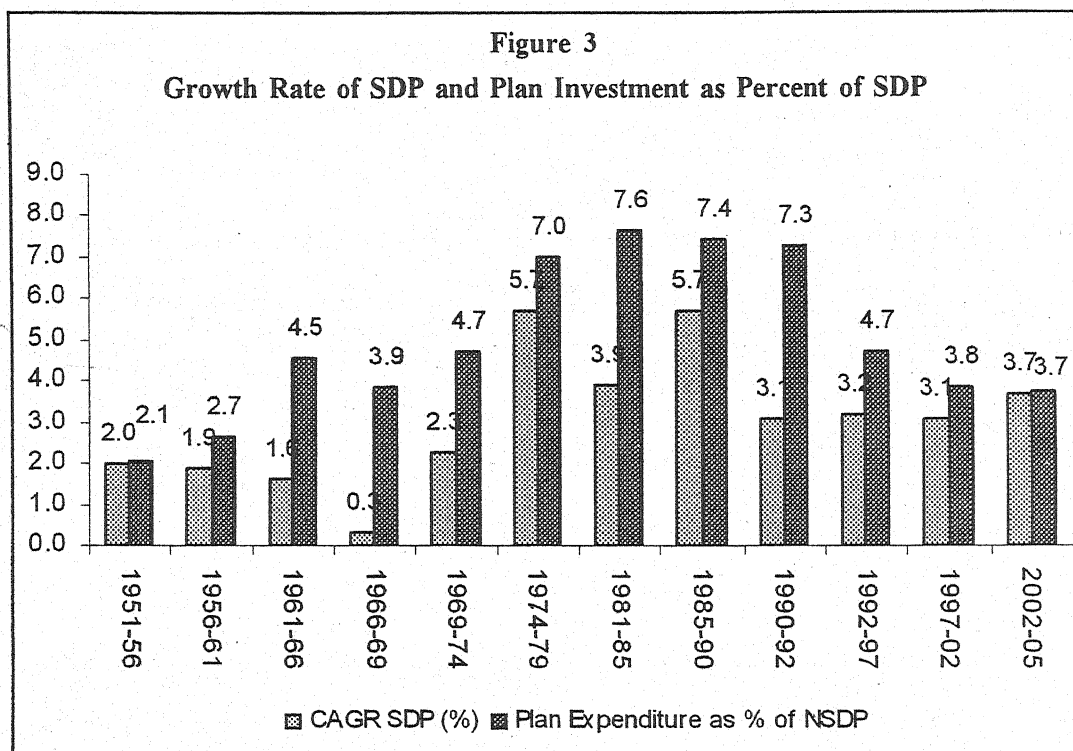
Figure 2



Source: *Eleventh Five Year Plan of Uttar Pradesh and Annual Plan 2007-08*,  
Planning Commission, Government of U.P.

As we have discussed elsewhere the fluctuations in the SDP growth witnessed in U.P. are closely related to the level of plan expenditure in the state (see Singh 2007). This is evident from a look at the plan expenditure as a proportion of NSDP (Figure 3). The ratio shows a marked jump during the period 1975 to 1992, when U.P. experienced relatively higher economic growth as compared to the earlier period. Plan expenditures again show a clear decline since the early nineties, which is reflected in sharp decline in the growth rate of state economy. The upward trend in the growth rate witnessed in the Tenth Plan again is associated with a rise in the ratio of plan expenditure to state income. These trends suggest that public expenditure do

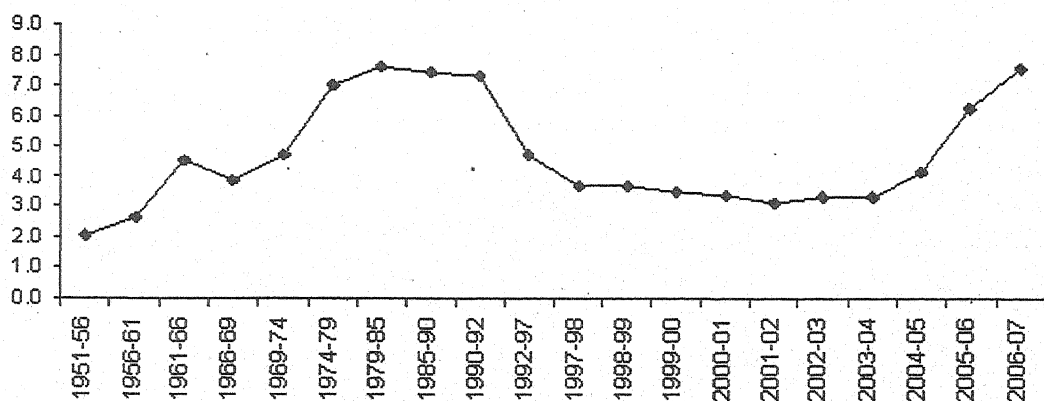
matter in a poor economy like U.P. and here is 'crowding in' effect of public expenditure on private investment. This relationship needs to be probed in greater detail, a task which is not possible here.



Source: Computed from Plan Documents, U.P. Govt.

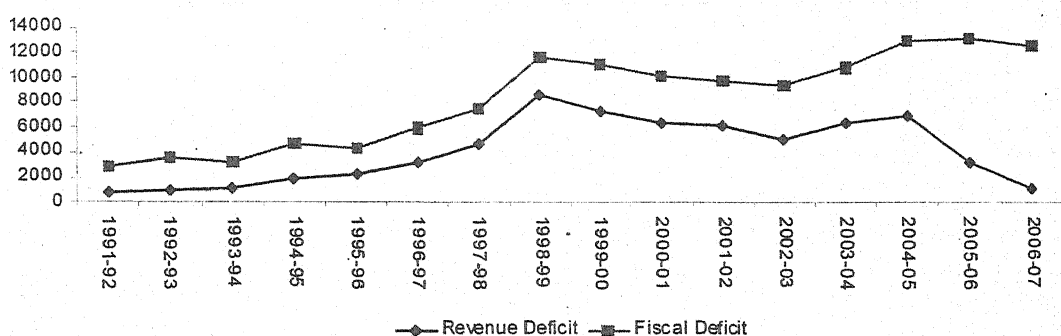
The decline in the plan outlays observed in the nineties, in its turn, was the result of the deep fiscal crisis which faced the state during this period, which was reflected in the rising fiscal and revenue deficits (Singh 2007). The rising pressure on current government expenditure on salaries, pensions and interest squeezed out development expenditure on infrastructure and the productive sector. This can be seen from Figures 4 and 5 which show the trends in the ratio of plan expenditures to NSDP and the trends in gross fiscal deficit and revenue deficit respectively.

Figure 4  
U.P.'s Plan Expenditure as Percentage of NSDP



Source: Computed from Plan Documents, U.P. Govt.

Figure 5  
Trends in Revenue and Fiscal Deficit in U.P.

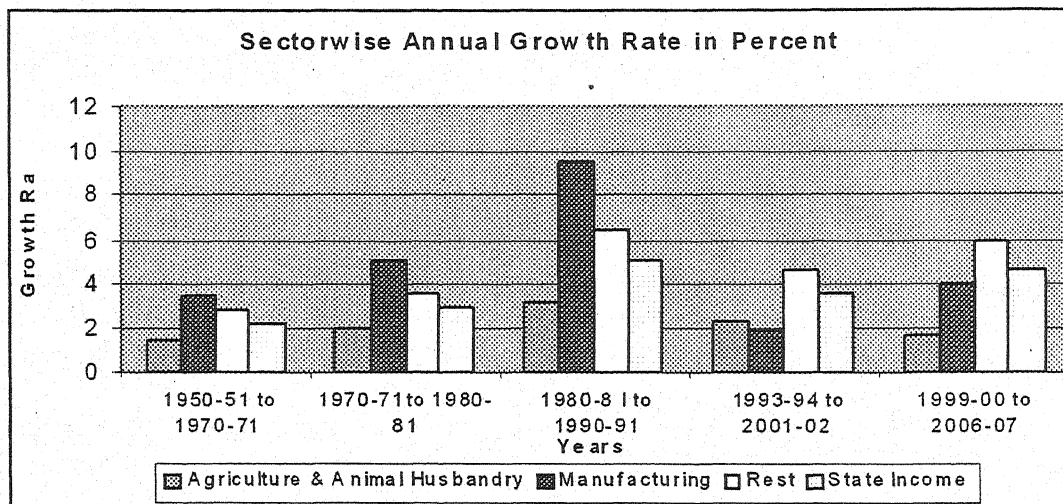


Source: Computed from Budget Documents, U.P. Govt.

A look at the sectoral pattern of growth would be helpful in understanding the dynamics of economic growth in the state. The green revolution, which spread rapidly in the state during the seventies and the eighties, pushed up the growth rates in all the sectors of the state economy (Figure 6). Thus, the acceleration in the growth rates which was visible since the mid 1970s till 1990 was largely agriculture led growth in the wake of the green revolution (Singh 1987 and 2002a). Rise in public investment mentioned earlier during this period also played a supportive role. The sharp decline in the growth rate of the state economy observed since early nineties was also accompanied by a sharp decline in agricultural growth rates, which also affected the other sectors. It may be noted that the agricultural sector remains crucial for the economic

growth in the state because of its linkages with the non-agricultural sector both on the demand and supply side (Agarwal 1996).

Figure 6



The process of structural shifts away from agriculture has been relatively slow in U.P. Thus, primary sector contributed 34.5 per cent of state income against its share of 22.0 per cent at the national level in 2005-06. On the other hand, the shares of the secondary and the tertiary sectors were lower in the state at 18.2 per cent and 47.0 per cent respectively against the national average of 22.3 per cent and 55.7 per cent (GOUP 2007, p. 107). Not only U.P. has a lower share of the dynamic sectors in the state economy, these sectors are also showing lower growth in U.P. as compared to India. As Virmani has pointed out: "If the rate of growth of trade et al, manufacturing (regd) and construction in Uttar Pradesh was raised to the mean rate of 6.9 per cent, 6.4 per cent and 8.7 per cent, respectively, Uttar Pradesh (divided)'s SGDP would have grown at 6.4 per cent per annum." (Virmani 2008).

### III. Resource Potential

The poor economic performance of U.P. has been despite the fact that it is endowed with good natural and human resources. The state is located in one of the most fertile land tracts in the world with plentiful surface and underground water, plentiful rainfall and good climate suitable for agricultural activities. It has large livestock resources. It has a vast stock of

cheap and unskilled labour as well as skilled and educated manpower. In short, U.P. is a state with great potential, which alas remains largely unexploited. A brief account of the resource potential of the state is given below.

## **Land Resources**

The state is endowed with bounteous land and water resources. Nearly 1.7 million ha area is under cultivation constituting about 70 percent of the total geographical area. A little over half of the cultivated area is under double cropping. However, per capita availability of land has been declining and stands at barely ten cents.

A major problem is the declining soil health due to unscientific cultivation practices and imbalanced use of fertilizers. A significant part of the land area, nearly one-fourth of total area, is degraded land under various types of degradation. Over one million hectare area suffers from the problem of soil salinity and sodicity of various degrees. Water logging and flooding also affects large area particularly in the Eastern region. Nearly one million ha area is lying under old fallows and another half a million ha under current fallows. With proper management most of the degraded lands can be restored for cultivation, horticulture or wood farming.

Forest wealth of the state has been almost denuded. Forest area dwindled to 1.7 million hectares, barely 7 % of total geographical area. Whatever little area is left under forest is suffering from extensive degradation. The geographical distribution of forests is also uneven. Most of the forest area is concentrated in the northern tarai region and southern region, while the large Gangetic plains are left with practically nil area under forests, posing a serious environmental imbalance.

## **Water Resources**

The State is, however, rich in surface and ground water resources. Over three-fourth of the sown area is irrigated mostly through tube-wells. Uttar Pradesh also has a fairly large canal network. Ground water resources account for about 78 per cent of irrigated area and surface water resources for about 22 per cent. In 2004-05 the proportion of net irrigated to net cultivated area was reported at 78.64 percent and the proportion of gross irrigated to gross

cultivated area at 74.20 per cent. However, cropping intensity is only around 1.55. This indicates low efficiency of irrigation. There are again large differences in the proportion of irrigated area varying from 27 percent in Sonbhadra district to nearly 98 percent in Muzaffarnagar district. Irrigation facilities are more developed in the western region where nearly 90 per cent of area is irrigated, while Bundelkhand has less than half of the cultivated area under irrigation.

Efficiency of the irrigation system, however, continues to be low. Irrigation potential is not fully utilized due to problems like lack of distribution channels and poor maintenance of the canal systems. Irregular and poor quality of power supply also affects the working of the government as well as private tubewells. In view of uncertain power supply the tubewells are run on diesel pump sets, which raises the cost of irrigation for the farmers. Reforms in the irrigation sector have been slow. Water charges for canals and public tubewells are highly subsidized, leading to huge fiscal loss to the government. Power tariff in rural areas is nominal leading to over exploitation of ground water and making power utilities financially non-viable. Not much headway has been made towards involvement of community and water users associations in managing the irrigation systems.

As a result of the faulty policies the rich water resources of the State are depleting fast. The water table in the Indo-Gangetic Plain is receding annually by 20 to 30 cm. The water table in Bundelkhand Region has receded by 2 to 3 meters due to successive droughts and all the 47 blocks in the region are in critical condition. In all, over 140 blocks in the State have turned grey. On the other hand, due to poor drainage development, 800,000 ha are waterlogged. Eastern region faces problem of recurring floods.

## **Livestock and Fishery Resources**

Uttar Pradesh has a large unexploited potential in case of allied agricultural activities like livestock, dairying, goatary, poultry, fishery, etc. There is a high number of livestock in the state but its productivity is very low. The proportion of cross bred cow is small and declining. There is, however, an acute shortage of feed and fodder and cattle are left free to graze. The veterinary facilities in the state are very inadequate in the light of the large number of livestock in the state. There is an acute shortage of veterinary staff at various levels. Milk production has

been expanding at a high rate of 6-7 per cent. However, milk sector is largely in individual hands and its marketing is unorganized. Processing facilities are, however, not well developed. Hardly 2 percent of milk produced in the state is purchased by cooperative unions. Export of livestock products including milk, meat, hide and skins has a good potential in the state.

Apart from the large number of cattle and buffaloes in the state, the state has also a large number of smaller animals like goats, sheep and pigs, which are mostly kept by the poor people and used to supplement their diet and income. Similarly there is a good scope of promotion of backyard and commercial poultry in the state.

In view of the large number of water bodies and rivers fishery also has a good scope in the state, particularly in the eastern region. However, productivity of fishery is extremely low in the state. Provision of quality seed is a major problem in this regard. Marketing system for fisheries also needs to be modernized.

## **Human Resources**

The biggest resource of U.P. is the large and cheap manpower both skilled and unskilled. Total number of workers in the State according to 2001 Census was 53.98 million, out of which 39.34 million were main workers (i.e. who get employment for more than 183 days in a year) and 14.65 million were marginal workers (i.e. those who get employment for less than 183 days in a year). Most of the population is in young age group constituting a potential demographic dividend. The state has a large number of universities and colleges and technical and management training institutions, which produce a large number of graduates and technically qualified persons.

The flip side of the picture is that the state ranks low in human development indicators (Singh 2005, UPHDR 2003). Only 57.3 percent of population of the state is literate according to 2001 Census against the national average of 65.3 per cent (Table 1). Female literacy is even lower at 42 percent. IMR and MMR are much higher in the state as compared to the national average. Population density is high at 690 per sq. km. Population growth has remained relatively high at 2.2 per cent per year during the last two decades adding to the already high population pressure. Only three states namely Bihar, Haryana and Rajasthan show a faster growth of population than Uttar Pradesh.

**Box 1**

<b>Resource Potential in U.P.-A Balance Sheet</b>	
<b>A. Land Resources</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>● Nearly 1.7 million ha area is under cultivation.</li> <li>● Over three fourths of the cultivated area is irrigated.</li> <li>● The Gangetic plain is among the most fertile land in the world.</li> <li>● Most parts of the state receive good rainfall-over 1000 cm. annually.</li> <li>● The climate is suitable for growing a large variety of crops and fruits.</li> </ul>	<ul style="list-style-type: none"> <li>● Per capita availability of land has been declining and stands at barely ten cents.</li> <li>● Only about half of the cultivated area is under double cropping.</li> <li>● The average size of land holdings in the State is around 0.83 ha.</li> <li>● Nearly 90% of holdings are below 2 hectare in size, making them economically non-viable.</li> <li>● Declining soil health due to unscientific cultivation practices and imbalanced used of fertilizers and low use of organic manure.</li> <li>● Nearly one-fourth of total area is suffering from various types of degradation.</li> <li>● Bundelkhand region falls in the dry and rocky southern plateau with limited irrigation facilities and is prone to frequent droughts.</li> <li>● Barely 7 % of total geographical area is under forests. Whatever little area is left under forest is suffering from extensive degradation. The geographical distribution of forests is also uneven.</li> </ul>
<b>B. Water Resources</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>● The State is rich in surface and ground water resources.</li> <li>● Over three-fourth of the sown area is irrigated.</li> <li>● Uttar Pradesh has a fairly large canal network, which account for about 22 per cent of irrigated area.</li> <li>● Ground water is easily tap able and accounts for about 78 per cent of irrigated area.</li> </ul>	<ul style="list-style-type: none"> <li>● Less than three fourth of the irrigation potential is actually utilized due to various deficiencies prevalent in the irrigation management system.</li> <li>● The problem of over-exploitation of ground water has also emerged in many districts particularly in western U.P.</li> <li>● The public irrigation systems are incurring huge financial losses.</li> <li>● There is no rational policy of water charges. Water and power for irrigation is highly subsidized leading to its overexploitation.</li> <li>● There is poor maintenance of the canal systems resulting in decline in area irrigated by canals.</li> <li>● There are inter-regional and inter-district variations in irrigation coverage. Particularly Bundelkhand region faces problem of water scarcity.</li> </ul>

C. Livestock, Dairying and Fisheries	
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>● Uttar Pradesh has a large number of livestock of various types.</li> <li>● U.P. is largest producer of milk in the country. Milk production has been growing at over 6 per cent per year.</li> <li>● Fishery has a good scope in the state, particularly in the eastern region.</li> </ul>	<ul style="list-style-type: none"> <li>● Productivity of livestock is low.</li> <li>● Veterinary facilities are inadequate.</li> <li>● There is acute shortage of feed and fodder.</li> <li>● Only a very small part of milk production is processed.</li> <li>● Productivity of fishery is low. Provision of quality seed is a major problem. Marketing system is poor.</li> </ul>
D. Human Resources	
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>● The biggest resource of U.P. is the large and cheap manpower. Skilled and unskilled workers are available in large numbers.</li> <li>● Most of the population is in young age group constituting a demographic dividend.</li> <li>● A large number of educational Institutions at different levels exist in the state producing a large number of educated youth.</li> </ul>	<ul style="list-style-type: none"> <li>● The state ranks low in Human Development Indicators. Only 56.4 % of population is literate.</li> <li>● IMR and MMR rates are high.</li> <li>● Malnutrition of children and women is a serious problem.</li> <li>● Population density is high at 690 per sq. km.</li> <li>● Population growth has remained at 2.2 per cent per year during the last two decades. Control of population growth remains a major challenge in the state.</li> </ul>

## IV. The Productive Sectors

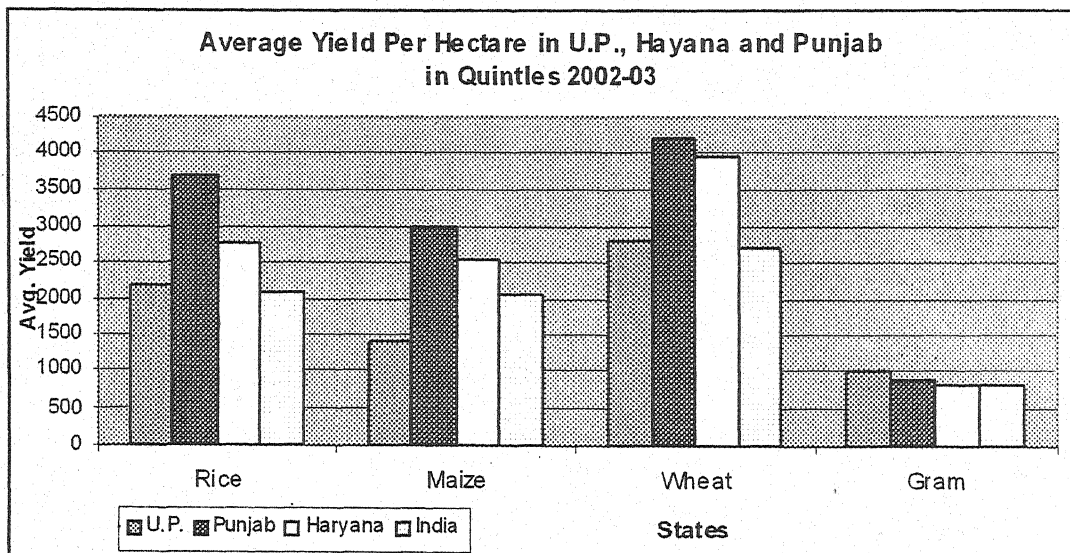
### Agriculture

The economy of Uttar Pradesh is predominantly agrarian. The performance of agriculture and allied activities such as horticulture, animal husbandry, dairying and fisheries is critical in determining the growth rate of the State. Agriculture and animal husbandry contributed about 30 percent to the States income in 2005-06 and provided employment to 66 percent of total workers. However, the share of this sector in State income has been progressively declining.

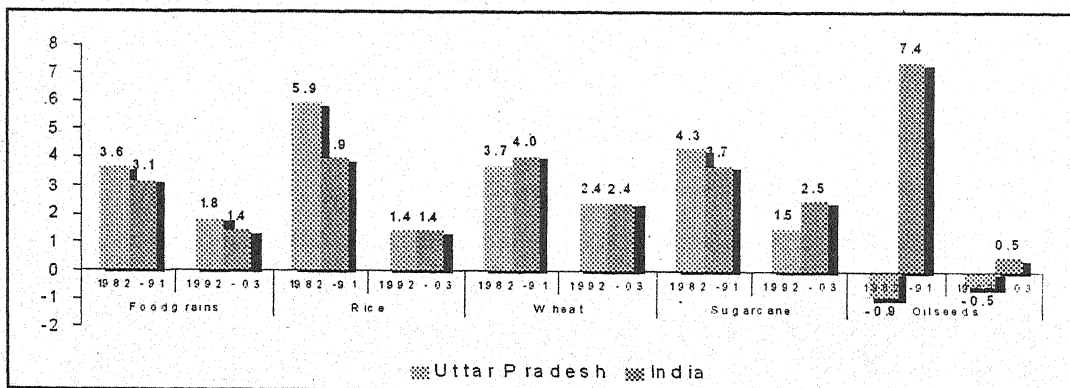
Uttar Pradesh is a major producer of variety of agricultural and horticultural crops in the country. It is the largest producer of wheat, pulses, sugarcane and potato and the second largest producer of rice, fruits and vegetables. It contributes about 20% of foodgrains, 48 percent of sugarcane, 38 percent of potato, 21 percent of fruits, 44 percent of vegetables produced in the country.

Though endowed with favourable agro climatic conditions, yields levels of major foodgrain crops are much lower in the state as compared to the agriculturally more developed states like Punjab and Haryana (Figure 7). Thus, there is a substantial technological gap in the actual and potential yields of crops in the state.

Figure 7



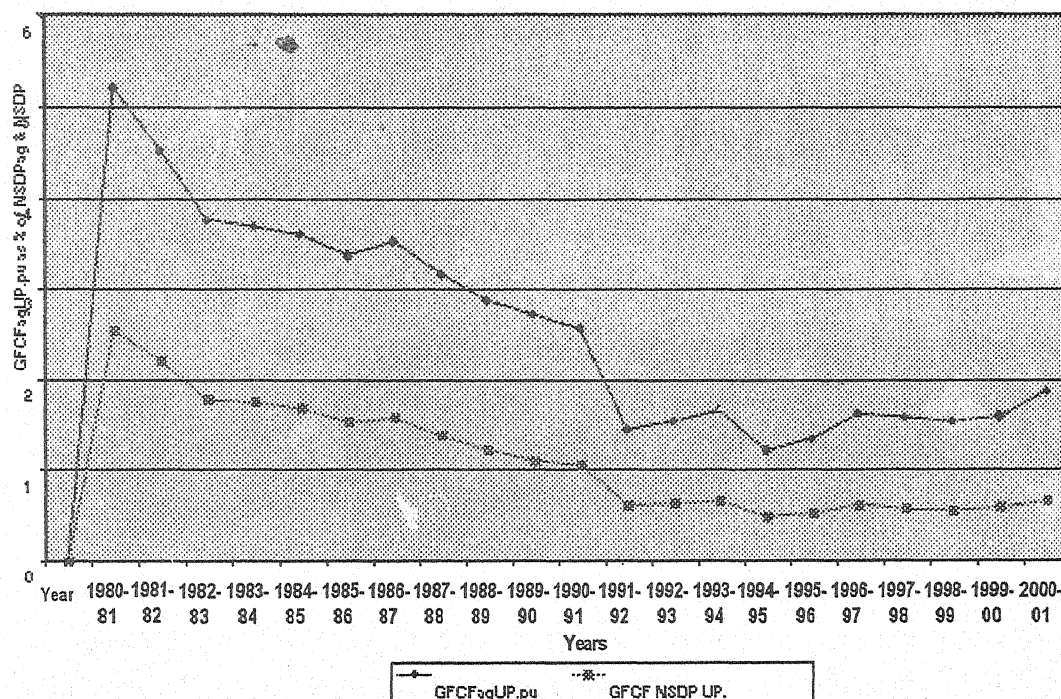
During the green revolution period U.P. had registered a fairly high growth rate of agriculture-around 3% per annum. However, since the beginning of the nineties agricultural economy of the state as that of the country registered a severe set back in the nineties and growth rates of nearly all crops plummeted sharply. While the growth of agricultural output in value terms has remained more or less constant at a little over 2.3 percent per annum in the last two decades, the growth rate of foodgrains output in the state slumped from 3.8 percent per annum during the period 1980-81 to 1990-91 to 1.8 percent per annum during 1991-2004 (Figure 8).



A number of factors are responsible for the slow down of agriculture in the state including technological fatigue, decline in public investment in agriculture and rural infrastructure, declining profitability levels, land degradation and decline in soil quality and decline in the quality of public support services related to extension, supply of inputs and credit. The policy and regulatory framework for the agricultural sector is another important constraining factor as the sector continues to face many restrictions on purchase, storage, processing and marketing and movement of agricultural produce.

Figure 9

Gross Fixed Capital Formation in Public Sector as % of NSDP Agriculture & NSDP Total in UP



Source: Computed from the Budget Documents of the U.P. Government.

The extremely small size of holdings and the dominance of marginal and small farmers acts as an important constraint on agricultural development in U.P. According to the Agricultural Census 2001 there were 21.66 million operational holdings in the state, out of which nearly 77 percent were below 1 hectare and another 14 per cent were between 1 and 2 hectares. These holdings accounted for around 37 per cent and 24 per cent of operated area respectively.

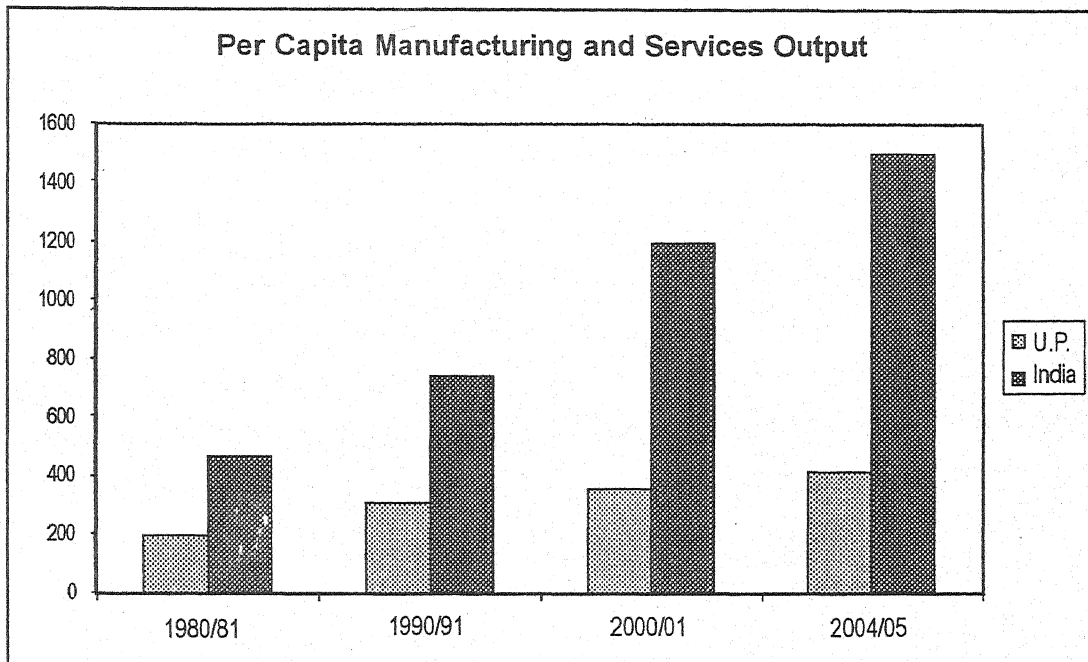
While holding size in all regions of the state is very low, variations across districts and regions are observed. In the Western region the average size of holding is relatively large with most districts having average holding on one hectare or above. Things are much worse in the eastern districts, where the economy is less diversified, population pressure on land is higher and the size of holdings is still lower. In many districts of east U.P. average holding is now around 0.5 hectare. As a result farming in east U.P. is subsistence oriented and there is little agricultural surplus to promote growth of agro processing industries. This also restricts the use of modern inputs like fertilizers and pesticides. Holdings are relatively larger in Bundelkhand, but their productivity is lower because of limited means of irrigation.

The NSS Farmers Survey 2003 reveals that farm households with holdings below 2 hectare are deficit households as their income falls short of their consumption expenditure, which makes these holdings economically non-viable. These farmers have limited resources for investment in agriculture and their access to institutional credit is also low. Most of these small farmers remain outside the network of markets as they have little surplus to sell. They cannot pay full and proper attention to cultivation of the tiny pieces of land they possess. Thus, the small size of land holdings is a major obstacle in the agricultural development of the state.

## **Industry**

U.P. is one of the relatively less industrialized states of the country. This is evident from low per capita value of non-agricultural SDP (Figure 10). Manufacturing contributes only about 11 per cent of GSDP and employs about 8 percent of total work force. Only 240 persons are employed in registered factories per lakh of population in U.P. against the national figure of 777. U.P.'s share in the number of factories in India was only 7.03% and its share in workers was 6.86%. However, U.P. has a fairly large industrial base. The registered factory sector consists of 9582 factories, which employed about 4,53,007 workers in 2004-05. Agro based industries constitute the most important sector of the industries contributing about 27% of value of industrial output followed by engineering industries with a share of 21.6%. Among the other important groups are chemical based industries and textiles with a share of 11% and 8.2% in value of industrial output respectively.

Figure 10



During the eighties U.P. registered a fairly high industrial growth of over 10 per cent per annum during the eighties. However, growth rates slackened sharply after that coming down to a paltry 4.2% during the Eighth Plan (1992-97) and turned negative during the Ninth Plan (1997-02). The Tenth Plan, However, shows a somewhat better performance with a growth rate of 6.7 per cent per annum. But it is still lower than the national average of 8.3%.

The small scale sector occupies an important place in industrial sector of the state. In 2005-06 there were 5,52,117 registered SSI units in the state, which employed 21.26 lakh workers. These units had an invested capital of Rs. 5394 crore. The estimated output is Rs. 3,73,000 crore. The dispersal of these units is uneven. Out of the total SSI units 50% are located in western region, 28% in eastern region, 16% in central region and only 6% in Bundelkhand. The SSI sector is faced with the problem of industrial sickness on a large scale with 43% of units lying closed according to the Third SSI Survey.

Uttar Pradesh has been a traditional centre of handloom since ancient times. The handloom industry occupies the second important source of employment generation after

agriculture in the state. According to the Handloom Census conducted by the Central Government in 1995-96, there were around 2.24 lakhs handlooms and 6.64 lakhs weavers in the state. Handloom industry is spread all across the state with 31 districts with major concentration of handlooms. Total production of handloom cloth is estimated presently at 51 crore meters. The famous centres of handloom products of include Varanasi for its silk sarees, Sitapur for its durries, Ghazipur for cut-work curtains, Amroha for pile work, Gorakhpur for its bed covers and Ghaziabad for its terry towels.

The handloom industry still has a wide market both within and outside the country even today. However, the industry is plagued with various problems and handicaps (Singh et al 2008). The socio-economic conditions of the weavers are quite pitiable since the earning are rather low and invariably insufficient to sustain the households. A majority of the weavers are living lives of misery, squalor and disease. The present sad state of the handloom sector is the result of various factors such as competition from power looms and mill made cloths, use of traditional technology without much change since generations, inadequate access to credit from the banks and other financial institutions and the exploitative role played by traders and commission agents who corner bulk of the surplus whereas the actual share of the weaver is negligible. The different handloom clusters in the state present different economic scenario depending upon their product specialization and market linkages. While some centres like Mubarakpur are declining, others are maintaining their position or growing (Singh et al. 2008).

The state is also well known for its various handicrafts like brassware of Moradabad, silk sarees of Varanasi, wood craft of Saharanpur, carpets of Mirzapur and Bhadohi, zari and chikan embroidery of Lucknow, glass bangles of Firozabad, etc. The State is reported to have a total of 18 lakh artisans spread over the state and are engaged in various crafts. Apart from providing employment and means of livelihood to a large number of workers, handicrafts are an important item of exports from the state. The share of U.P. in total handicrafts exports is put at between 35-40 per cent making it the most prominent state from the point of view of production as well as exports.

Despite the fact that handicrafts have been growing in the state steadily over the last

few years, the sector does face some problems which adversely affect its performance like change in pattern of demand, low productivity, shortage of raw materials, lack of credit facilities, dependence on traditional technology, poor marketing facilities, etc.

## V. Regional Disparities

Being a large state, U.P. is characterized by significant variations in the levels of economic and social development among regions and districts. Presently, the state is divided into four economic regions, namely, Western, Central, Eastern and Bundelkhand. The first three regions fall in the fertile Gangetic plains, which are well endowed with good soil and water resources. Bundelkhand forms part of the dry central plateau region. Table 2 gives selected indicators of socio-economic development of the four regions of the state.

**Table 2: Indicators of Economic Development in Various Regions of U.P.**

Development Indicator	Eastern Region	Western Region	Central Region	Bundelkhand Region	U.P.
Density Of population (per sq.km.), 2001	776	765	658	280	689
% Of Urban Population to total population. 2001	11.78	28.25	25.11	22.46	20.78
% Share in state's population, 2001	40.11	36.76	18.17	4.96	100.00
Total Literacy (%), 2001	55.22	58.44	59.04	60.32	57.36
Per capita power consumption (kwh), 2002-03	159.7	195.3	201.4	129.7	178.9
% of electrified villages to total villages. 1999-00	76.78	88.81	71.71	68.37	79.08
Average size of Holding (in Ha), 1995-96	0.65	1.02	0.83	1.72	0.86
Net sown area per capita rural (ha), 2002-03	0.09	0.12	0.12	0.22	0.12
Per capita gross value of industrial output in Rs., 2001-02	1417	7811	3743	1587	4202
Main workers engaged in agriculture to total main workers (2001)	66.14	56.08	63.78	70.08	62.12
Per rural person gross value of agricultural produce in Rs., 1997-98	2435	4876	3543	3949	3594
Per capita net output from commodity producing sector in Rs., 1997-98	6269	9882	7881	7910	8273

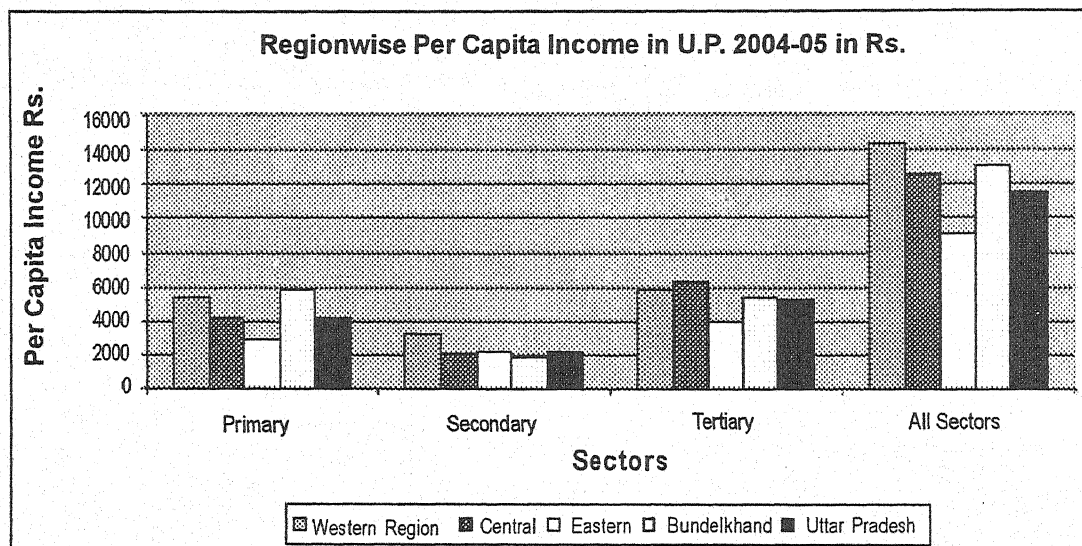
Source: *Tenth Five Year Plan*, U.P., Vol. 1, Part 1.

Economically Western region is the most developed with higher levels of urbanization, greater diversification of the economy, better infrastructure, higher agricultural productivity, higher per capita income levels and lower poverty levels. Eastern region and Bundelkhand are officially recognized as backward regions and are given special attention in development plans.

Central region scores relatively better in economic indicators as compared to the two backward regions.

Western region of the state is relatively more prosperous as compared with the other regions, while Eastern region is the poorest, Central region and Bundelkhand falling in the middle category (Figure 11). Per capita NDDP of Western region is about 60 per cent higher than that of Eastern region. The difference is only between 10-15 per cent in case of the other regions.

Figure 11



Source: Economics & Statistics Division, State Planning Institute, U.P.

The Eastern region has a population of 611.14 lakhs accounting for around 40 percent of state population, while Bundelkhand region has a population of 82.32 lakhs accounting for 5 percent of total population of the state as per 2001 Census. The Eastern region had highest population density (776 persons per sq. km of area), while Bundelkhand region had lowest population density (280 persons per sq. km of area) as against the density of 690 persons at the state level. Population is growing at a very high rate in both the regions which experienced growth in their population by around 26 percent during 1991-2001. The percentage of scheduled castes population (which is economically and socially more deprived) in total population in 2001 Census is relatively higher in Eastern and Bundelkhand region (21 per cent in each region) as against the state (16 percent).

Urbanisation levels are very low in both the regions reflecting their low level of development. Less than 12 percent of population in Eastern U.P. lives in urban areas as compared with the figure of 22 percent in Bundelkhand region and 28 percent in the state as a whole. The two regions suffer from lack of diversification of the economy. The majority of population in Eastern as well as in Bundelkhand is dependent on agriculture for their livelihood. 66% of main workers in East U.P. and 70% of main workers in Bundelkhand are engaged in agriculture as per 2001 Census.

Agriculture in the two regions has remained at subsistence level. More than 90 percent area is under foodgrain crops in both the regions. Productivity of all major crops is lower in both the region as compared with the state average (UP Development Report Vol. II, Ch. 1). The gross value of agricultural output per hectare of gross cropped area at 1993-94 constant prices in 2003-04 was Rs. 12,757 in Eastern region and only Rs. 10,676 in Bundelkhand region in comparison to the figure of Rs. 13, 898 at the state level. Percentage of net irrigated area to net area sown was 47 per cent in Bundelkhand region and 73 percent in East U.P. as against 76 per cent at the state level and 90 percent in West U.P. during the year 2004-05. As far Bundelkhand region is concerned, irrigation extension has been constrained by the topological conditions. While the potential of agricultural development is constrained by lack of irrigation and geographical factors in the Bundelkhand region, Eastern U.P. has favourable conditions for agricultural growth in terms of soil, climate and water resources.

Both the regions are industrially extremely backward. There were only 2.7 working factories per lakh of population in East U.P. and 3.9 factories in Bundelkhand in 2002-03 as compared to the state average of 7.7 and national average of 12.7. The number of persons employed in registered factories per lakh of population in 2002-03 was abysmally low at 107 in Eastern U.P. and 64 in Bundelkhand against the state average of 240 and national average of 777.

Economic growth in both the regions is constrained by lack of infrastructure particularly in the rural areas. However, due to low density of population Bundelkhand figures per lack of population do not appear to be relatively low. However, in view of the sparse and far flung

villages the regions suffers from access to infrastructure facilities. For example the total length of pucca roads per lakh of population 2004-05 in Eastern region was 69 Km and 113 Km in Bundelkhand region against 69 Km in U.P. as a whole. However, in relation to area road length is inadequate in Bundelkhand region (316 km) as compared to state (582 km.). This makes the problem of accessibility of roads to villages relative more serious in the region. Percentage of electrified villages to total villages in 2004-05 was lower in Eastern region (54.80 per cent) and Bundelkhand region (65.70 per cent) as compared to the state as whole (75.90 per cent). The per capita power consumption was also very low in Eastern region (101 Kwh) and compared to Bundelkhand region (130) against state average (157 Kwh), which itself is extremely low.

In terms of social indicators like literacy level, however, the inter-regional differences are not so marked. All the four economic regions also show considerable intra-regional variations at the district level (Singh 2002).

According to a study of Planning Department, GOUP districts have been classified according to composite index of development using ranks for 29 development indicators. The study reveals that Jhansi, Sonebhadra and Jalaun districts of Bundelkhand are in the medium category of development with an index of above 100 (Annexure 1). However, all the Eastern districts and the remaining 5 districts of Bundelkhand are in low medium or most backward category in terms of development with an index of below 100. In fact, out of the bottom 14 districts in terms of development 11 are in East U.P., 2 in Bundelkhand and 1 in Central region.

## **VI. Constraints on Development**

As we have pointed out earlier U.P. is a state rich in resources both human and physical. However, the potential of the economy has not been exploited properly for a number of reasons. In this section we will discuss the major constraints on development in the state. For the sake of analysis these constraints may be divided into the following categories:

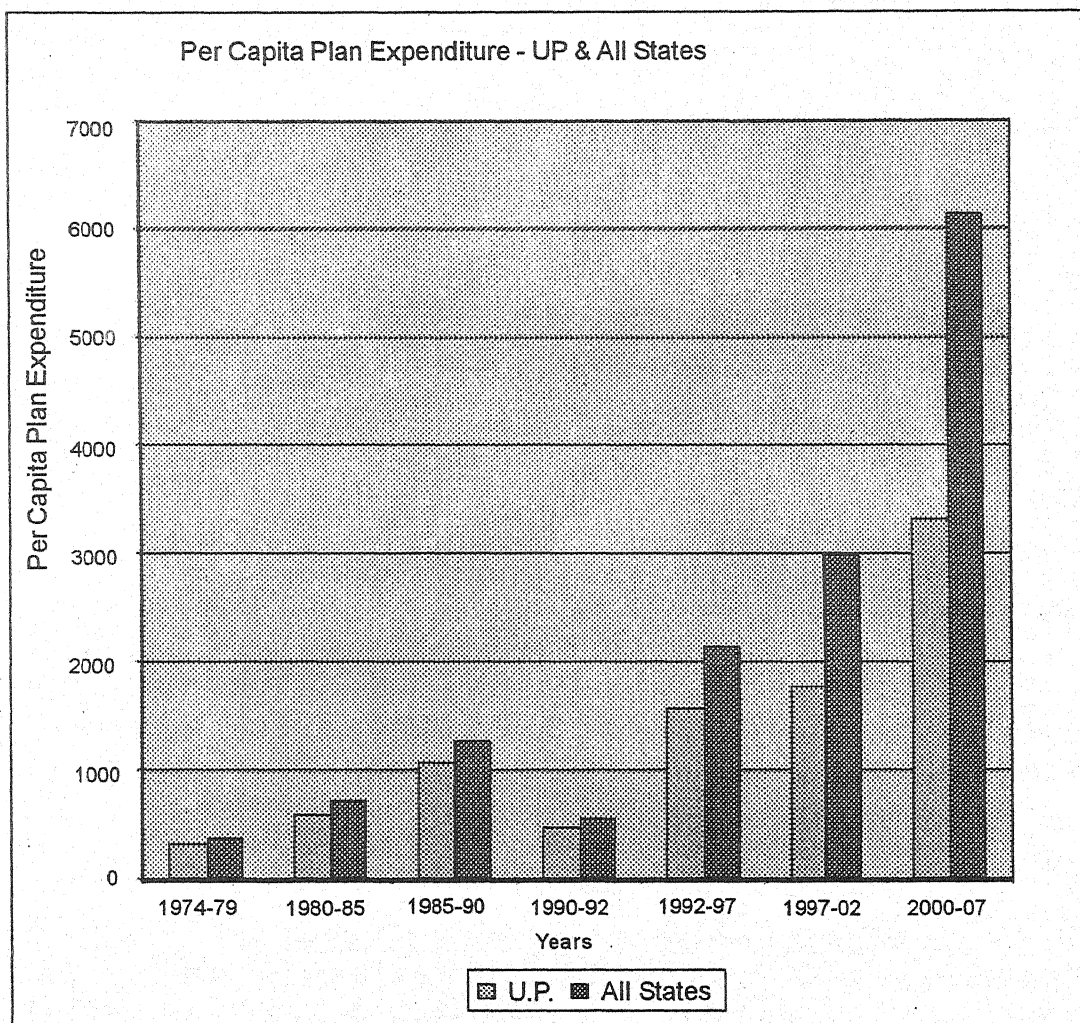
- (i) Poor Investment Climate
- (ii) Infrastructural constraint
- (iii) Policy Constraints
- (iv) Political Institutional constraints
- (v) Governance Issues

These constraints are briefly discussed below:

### (i) Poor Investment Climate

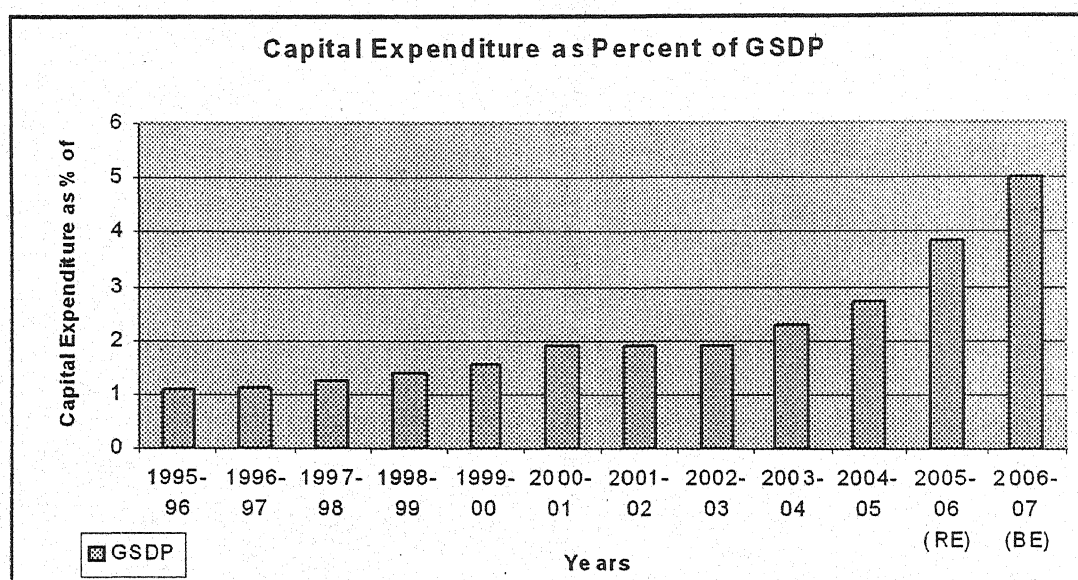
Economic growth is primarily a function of investment. Available evidence suggests that the investment rate in the state is hardly in the range of 15-16 percent of GSDP, which is almost half of the investment rate in the country. If we assume the ICOR of U.P. at 4, then also the growth rate of the state which has been around 4% per annum would yield an investment rate of 16% or so. Throughout the planning period plan expenditure per capita has been lower in U.P. as compared to other states (Figure 12).

Figure 12



Investment rate in the state has declined sharply in the nineties as compared to the eighties. This is particularly true for the public investment in the state. Thus, total plan expenditure which was around 7% of NSDP in the eighties came down to less than 4% in the nineties as mentioned earlier (Figure 4). The same is true of the public capital expenditure (Singh 2007). Capital expenditure of U.P. Government was as low as 6-7 per cent of total public expenditure and around 1.5 percent GSDP in the late nineties. As mentioned earlier, the decline in public investment witnessed since 1990-91 in the state was due to the creeping fiscal crisis in the state (see Kripa Shankar 2002; Singh 1999, 2000a, 2007). However, there has been some improvement in the situation in the last few years with public investment showing a distinct improvement (Figure 13).

Figure 13



U.P. does not have an entrepreneurial class of its own or the entrepreneurial dynamism of people of Punjab and Gujarat. In fact, being still ridden by feudal and traditional values business is not looked upon as a preferred occupation as civil services still occupy the highest social prestige and are the first preference of the youth.

There is no hard data about the level of private investment in the state. However, whatever information exists is indicative of a low level of private investment. Analysis of Centre for Monitoring of Indian Economy (CMIE) data reveals that private and public investment in industrial projects completed during 1998-2005 amounted to only 1.27% and 0.78% of state

GDP respectively in U.P. against the national average of 1.73% and 1.51% respectively. Moreover, 73 per cent of all completed investments between 2002-05 were accounted for by only three districts - Ghaziabad, Gautam Budh Nagar (both bordering Delhi) and Sonbhadra, while most districts in East and Southern UP have received no sizeable fresh investments in the last 8-10 years (Basu 2006).

## Box 2

### Encouraging Achievements on the Fiscal Front

Till recently U.P. presented the worst fiscal indicators among the states. The Revenue deficit rose from around 1.5 percent of GSDP in the early 1990s to around 3.5 percent GSDP, while fiscal deficit remained around 5-6 percent of GSDP. Liabilities of the State government went up from a modest Rs. 17966 crore in 1990-91 to Rs. 1,37,915 crore in 2006-07. The ratio of debt to SDP in U.P. stood at around 50 per cent, the highest level among Indian states. Consequently, the debt servicing ratio to revenue receipts had risen to 46 per cent during 2004-05. Almost 30 per cent of the revenue expenditure was on account of interest payment. The mounting interest payment and the salary bill of the state government squeezed the capacity of the state to spend on priority sectors. Consequently the proportion of development expenditure went down to as low as 40 percent and the capital expenditure declined sharply. In fact, a large part of the public borrowings were diverted to meet the revenue expenditure of the state.

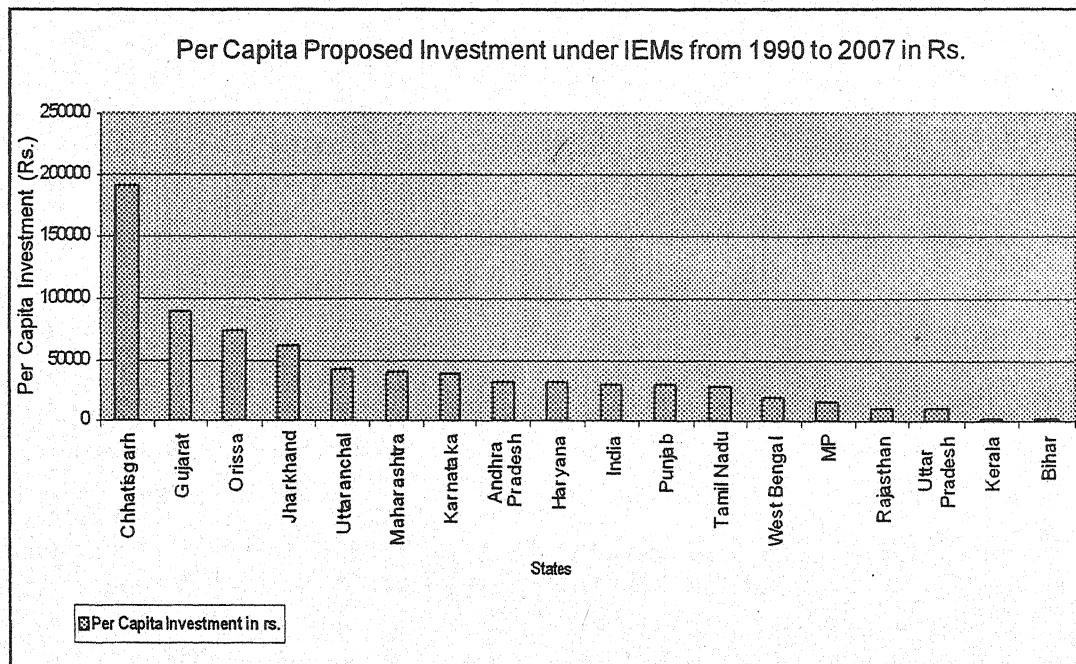
Since 1999 the State government took some determined efforts to control the fiscal crisis (Joshi 2003). A medium fiscal term restructuring policy was adopted following the recommendations of the World Bank, which provided a fiscal restructuring loan to U.P. (World Bank 1999). In 2004, U.P. passed a Fiscal Responsibility and Budget Management Act with a view to bring down the Revenue Deficit to zero and Gross Fiscal Deficit to 3% of GSDP by 2008-09. A programme of computerization of the state treasuries for undertaken to improve fiscal management.

All these efforts have resulted in a dramatic improvement in the fiscal situation in the state during the last two-three years. Larger flow of resources from the Centre and also the rapid increase in states own tax revenue also helped in easing the fiscal constraints (Singh 2007). State budgets for 2006-07 and 2007-08 showed a revenue surplus almost after a gap of two decades. The Gross Fiscal Deficit also came down to 3% of GSDP. The ratio of committed expenditure on salary, pension and interest which used to be over 80 per cent of the revenue receipts has come down to nearly 60 per cent easing the pressure on state finances. As a result of the improved fiscal situation public capital expenditure has increased sharply from Rs. 7898 crore in 2004-05, to Rs. 9718 crore during 2005-06 and further to Rs. 13437 crore during 2006-07.

In spite of its best efforts the state government has not been able to attract much investment from outside whether domestic or foreign. The state is not looked as a favoured investment destination due to lack of infrastructure and the burden of regulatory policies and controls in the state. In fact, a careful study done for the Twelfth Finance Commission (INDICUS 2004) has ranked U.P. at 13th position among Indian states in terms of investment attractiveness. Though in terms of simplicity of rules U.P. was ranked at 9th place, but in terms of infrastructure and reform orientation perception of entrepreneurs about U.P. were worse (Annexure 2).

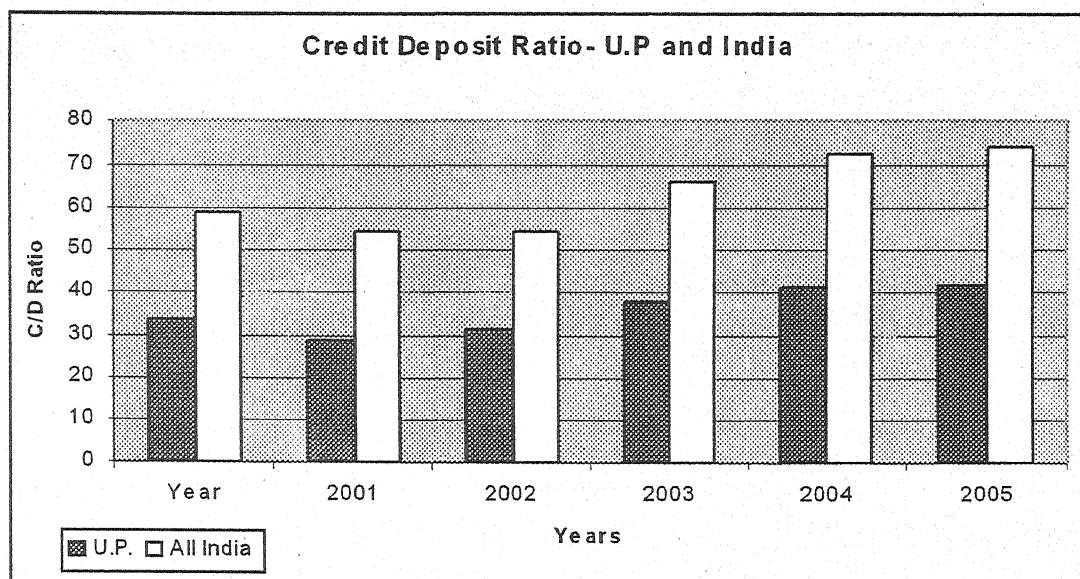
IEM data are often used to show the attractiveness of a state for investment. U.P. does not show a happy picture in this respect. Thus, U.P.'s share in total proposed investment through IEMs in the country between August 1991 and November 2007 was a meager 5.3%, much below its population share. In per capita terms proposed investment in U.P. has been less than one third of India and hardly one-tenth of Gujarat (Figure 14). Even this proposed investment has not fully materialized as the implementation rate has been around one-third of proposed investment. What is even more worrisome is that the share of the state in proposed investment declined during the present decade as compared to the previous decade.

Figure 14



Other indicators of investment flow also reveal a depressing scenario for U.P. For instance U.P.'s share in bank loans in the country has decline from 5.15% in 2001 to 3.30% in 2006. U.P.'s share in loans from term lending institutions like IDBI, ICICI and REC has been quite low between 2 and 3 percent only. Bank credit-deposit ratio in the state is much lower than the national average (Figure15).

Figure 15



The conclusion is inescapable that U.P. is not attracting investment due to a number of problems which are not difficult to identify. A recent study by the World Bank based on a survey of 300 SMEs covering different industrial sectors in U.P. highlights the constraints on industrial development in U.P. (Basu 2006). Power problems, anti competitive practices and tax rates and adverse perception about corruption, regulation and law and order were the major bottlenecks identified by the entrepreneurs. Other bottlenecks mentioned were tax administration, cost of finance, access to finance, transportation, economic and regulatory policy uncertainty, macro instability, skill and education of workers, labour regulation, business licensing, customs and trade, access to land and telecommunication. The regulatory burden was also pointed out to be higher in U.P. Starting a business in UP requires 16-20 approvals, many of which have to be renewed (Basu 2006).

The Ease of Doing Business Report 2007 of the World Bank found that it takes 42 days to start a business in U.P. (Lucknow) involving a cost of about 43.5% of per capita SDP. Similarly registering a property took 43 days and enforcing a contract as many as 950 days. Taxes at 81.7% of profit were also relatively high in U.P. The state also scores low in terms of days required in importing and exporting (27 and 29 days respectively) being a landlocked state. Overall Lucknow ranked at 6th position in terms of ease of doing business after Hyderabad, Bangalore, Jaipur, Chennai and Bhuwaneshwar.

Unless the state takes bold steps to project it as an attractive investment decisions by removing the various constraints and bottlenecks it cannot hope to move on to a high growth trajectory.

## (ii) Infrastructural Constraints

Availability of good infrastructure is a pre requisite of economic growth. There is a widespread feeling that U.P. economy is suffering due to lack of an adequate infrastructure, particularly power. A study done for Twelfth Finance Commission (Mohanty 2004) put U.P. at 15th rank in terms of composite index of infrastructure (Figure 16). Its position was slightly better in case of communication and transport index, where the state was at 12th and 11th position, but in power index it was lower at 15th position.

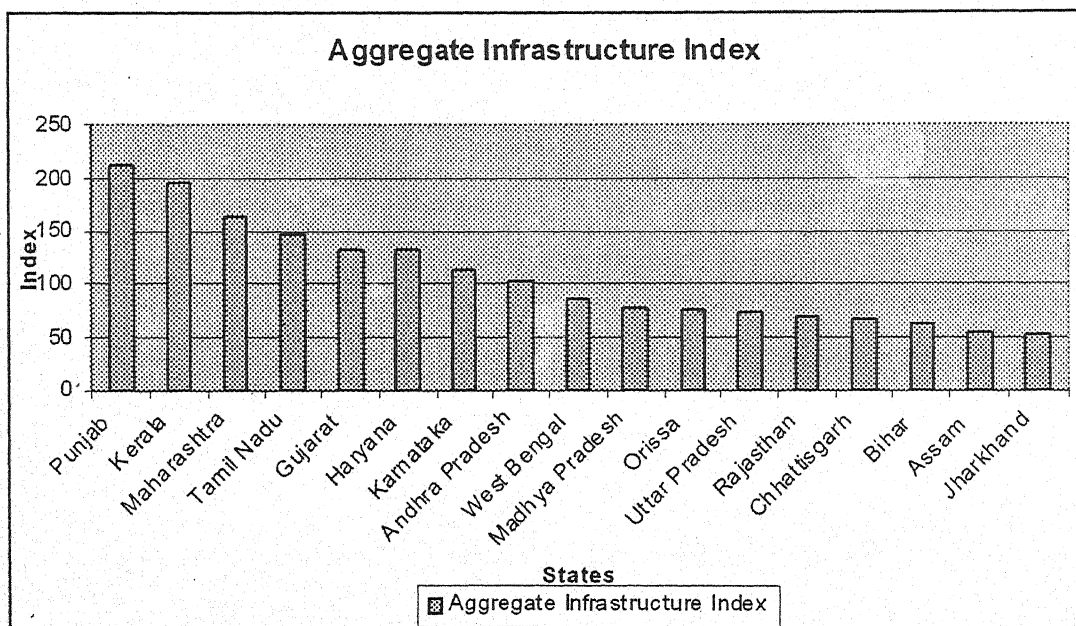


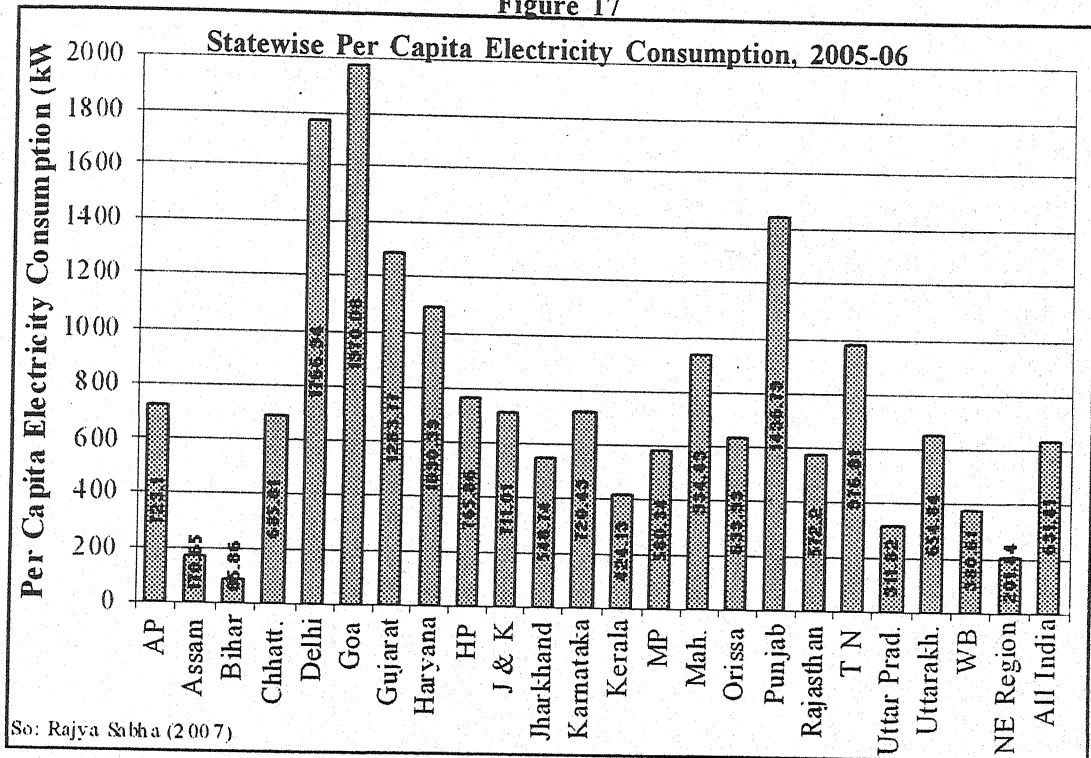
Figure 16

Not only the availability of infrastructure inadequate, it is also suffering from poor quality and mismanagement. Issues related to major infrastructural problems are briefly discussed below.

## Power

Power is the most critical bottleneck in case of U.P. The power sector is characterized by several deficiencies in generation and distribution. Per capita electricity consumption in Uttar Pradesh in 2005-06 was only 312 kwh or half the national average of 631 kwh. Hardly 20 percent of total households have electricity connection in the state. Even then domestic consumption accounted for 37% of power consumption in 2006-07. The share of industry, agriculture and commercial sector was 21%, 11% and 7% respectively.

Figure 17



The state has been facing acute shortage of power supply in the last many years. The shortfall in supply has been around 20 % in the recent years, while peak demand shortfall is nearly 28%. At present U.P. is having maximum peak demand shortage of 2000-3000 MW. The state has a maximum availability of 6500 MW against a demand of 8500 MW. The total installed

capacity of U.P. is only 3987 MW. Peak demand shortfall is 5000 MW. A large part of demand is met by purchasing power from outside, which is adding to the financial burden as the full cost of power purchase is not being realized. The state power utilities have not added generation capacity in the state for over a decade. Nor the state has been able to attract private investment in the state as the MoUs with the private companies did not materialize for one reason or the other.

The operational efficiency of the power system including generation, transmission, distribution and revenue collection continues to be low. The plant load factor of thermal plants owned by the UPRVNL decreased from 57.7% in 2003-04 to 54.04% in 2005-06. This compares with a PLF of 80 to 90 per cent in some southern states. Due to poor maintenance and low investment in distribution system distribution transformer failure is high at 20%. The T & D losses have remained in the range of 34% during the last three years. There is widespread theft of power. AT and C losses are very high and stood at 40.68 % in 2006-07 against the all India average of 36%.

The average tariff rates are low in relation to the cost of supply and involve a high level of distortionary cross subsidies. For instance, in 2006-07 the average tariff was Rs. 2.61 per unit against the cost of supply of Rs. 4.18 per unit. Average tariff was Rs. 4.79 per unit for commercial use, Rs. 4.36 for HT industry and Rs. 1.13 for agriculture, while the domestic charge was Rs. 1.91. The cost recovery ratio comes to 115% for commercial use and 104% for HT industry against the ratio of 46% for domestic use and only 27% for agriculture.

The situation is made worse by low collection efficiency. About 80.38 lakh out of 88.06 lakh consumers, representing 91 % of all consumers in the state, have meters installed on their premises. However, around 44% consumers in the state were receiving supply as per unmetered tariff schedule on the basis of past consumption or some variant of it. About 95% of rural consumers are receiving supplies under unmetered schedule. About 90% of the public lighting, accounting for 82 % of electricity consumed by all public lighting, receives electricity supply under unmetered schedule.

Realization efficiency is also not up to the mark. It stood at 83.7% in 2002-03, but showed some improvement in after that reaching the level of 90.7% in 2006-07. It is still below

the all India figure of 93.6%. The revenue arrears of discoms have reached an alarming proportion and amount to Rs. 7000 crore.

As a result of all these deficiencies the public power utilities in the state are suffering very high financial losses. The net cash gap has been rising sharply in the recent years rising from Rs. 2760 crore in 2004-05 to Rs. 5309 crore in 2006-07. Public utilities are not even able to meet the operational expenses out of their revenue. Total operational gap stood at Rs. 2777 crore in 2006-07. The government subsidy amounted to Rs. 1252 crore in 2005-06 and Rs. 1808 in 2006-07. The loss without subsidy is estimated to be Rs. 3641 crore in 2004-05 and Rs. 3951 crore in 2005-06. The accumulated loss of the sector stands presently at about Rs. 12,000 crore.

### **Box 3**

#### **Power Sector Reforms in U.P.-An Unfinished Agenda**

U.P. was among the pioneering states which initiated reforms in the power sector during the late nineties. UP State Electricity Regulatory Commission (UPSERC) was set up in 1998. Power Reforms Act was passed in U.P. in 1999. In the year 2000 generation, transmission and distribution functions of UPSEB were transferred to three corporate entities. Separate corporations were set up for Hydel and Thermal Generation. Later in 2003 distribution work was unbundled and given to four DISCOMs set up for this purpose. U.P. Government also came out with a new Power Policy in 2003 in the light of the Central Electricity Act of 2003.

These reforms have brought about some transparency, especially in the process of tariff determination. However, various directions issued by the UPERC to improve efficiency of the power sector utilities in the state have not borne fruit. The transmission and distribution losses in the state have improved only marginally. The state government has resisted hike in tariffs. Still, there is day to day intervention of the government in the functioning of the corporations.

Presently all the entities are headed by a single Chairman. This has prevented their independent functioning and constrained competition between them for improving efficiency, which was the primary objective of reforms. The corporations are often headed by Principal Secretary to the Government. Often the Managing Director of the corporations is a bureaucrat rather than a professional manager or technocrat. The working of these bodies has been affected by the shortage of qualified technical, financial and managerial manpower. Separate company secretaries and financial controllers have not been appointed. There has been little progress in privatization of generation and distribution network.

The state government has undertaken a number of steps in the direction of power sector reform in the past decade. The assessment of power sector reforms in U.P. reveals that the reform measures have been half hearted and continue to be dominated by political consideration (UP Development Report, Vol. II, Ch. 7). Consequently, expected benefits of the reform process have not materialized (Box 3). The financial performance has further deteriorated in recent years. The public utilities are incurring huge financial losses and resorting to short term borrowing. This presents a financially unsustainable situation for the power sector in the state, which needs to be addressed with urgency.

The present government is giving high priority to improve the power situation in the state and has come out with an ambitious plan for power generation. The new projects in the state, joint and private sectors are likely to add 6686 MW of capacity in the Eleventh Plan. The generation companies in the state are expected to add over 2500 MW generation capacity during the 11th Five Year plan. In addition, a capacity of 2056 MW has been identified to be developed under joint collaboration with BHEL and NTPC respectively. A few projects are under development in the private sector and new projects have been identified for development in the private sector. These include a 1,980 MW plant at Bara Tehsil and 1,320 MW plant at Karchhana in Allahabad district. These initiatives to add generation capacity in the state would improve power availability only in a few years time.

## **Roads**

A well developed road transport system is a major prerequisite for rapid development of any economy. U.P. has a fairly large network of roads running into 2,76,782 kilometres including rural roads. The road system in UP is marked by several deficiencies (UP Development Report, Vol II, Ch 8). Road density is relatively low in terms of area as well as population as compared to more developed states of the country. Presently, the State has 169.8 km. road per lakh of population and 96.7 Km. road per 100 sq. km area. Among the 26 states of the country U.P. ranks 11th in terms of road density per sq. km. and 23rd in terms of road density per lakh of population. Road density is relatively low in Poorvanchal and Bundelkhand regions of the State.

The quality of roads is generally substandard. Only 54% of the total road length is surfaced or pucca road. Riding quality of the roads is poor. The width of carriageway is inadequate

in relation to traffic demand. About half of the State Highways are single lane (below 7.0 m. width). 72% of Major District Roads are below standard single lane (below 3.75 m. width), while 88% of Other District Roads are below standard single lane (below 3.75 m. width). Thus, the system is unable to cope with the requirements of increasing road traffic in the state. The problem of poor quality is compounded by poor maintenance. Expenditure on maintenance is only half of the norms prescribed by the Finance Commission. Flow of traffic is also affected by the absence of adequate number of railway over bridges, by passes around cities and towns and bridges on important river crossings.

#### **Box 4**

##### **Recent Initiatives on the Road Sector**

Road development did not receive adequate priority in earlier plans. However, since the Ninth Plan greater emphasis has been given to development of the road sector. Plan expenditure on roads jumped from Rs. 3899.95 crore in the Ninth Plan to Rs. 7853.39 crore in the Tenth Plan. The present government has an ambitious programme for the road sector and has proposed an outlay is Rs. 24,600 crore for road sector in the Eleventh Plan.

State Government came out with a Road Policy in 1998. The salient features of this policy include widening and strengthening of all roads on the basis of density of roads as per established norms, establishment of a Road Fund for continuous and regular maintenance of roads, enhanced annual budgetary provisions, encouragement of private sector in road construction and maintenance through BOT system. A State Highway Authority has also been set up. The objective of the current state policy is to link the major centres of the State and open up the remote areas through a system of fast moving road traffic.

The road sector is being given a high priority by the present state government. Among the major initiatives of the present government is the 1000 Km Ganga Expressway connecting NOIDA to Ballia in East U.P. The project is being entirely implemented in Public-Private Partnership mode and the concessionaires would be allowed to commercially develop sites along the expressways so as to make the project financially viable. The express way is expected to act as a development corridor and can become a catalytic intervention to boost investment and economic growth. But there is a feeling that the technical, financial and environmental issues related to the project have not been fully considered. Speedy implementation of the project is also likely to pose problems. Especially the acquisition of land can become a ticklish issue, which may affect implementation of the project. Development linkages have also to be planned carefully to maximize the benefits of the project.

A major problem in the state is the poor village connectivity. Only 60,084 villages out of the 99,066 villages in the state were connected with all weather roads as on 31.03.07. Out of the 1,70,004 habitations of the state only 1,20,444 (70.8%) are connected according to PMGSY standards, i.e., connectivity either through painted or BOE (Kharanja) roads. The poor village connectivity is a major constraint in linking rural economy with the markets. This issue is getting due attention of the state government which has an ambitious plan to improve village connectivity during the Eleventh Plan.

The institutional mechanism for planning, construction, maintenance and management of roads suffers from a number of inadequacies, such as, multiplicity of agencies, lack of separation in functional domain, ineffective management structures, inadequate involvement of private sector and road users.

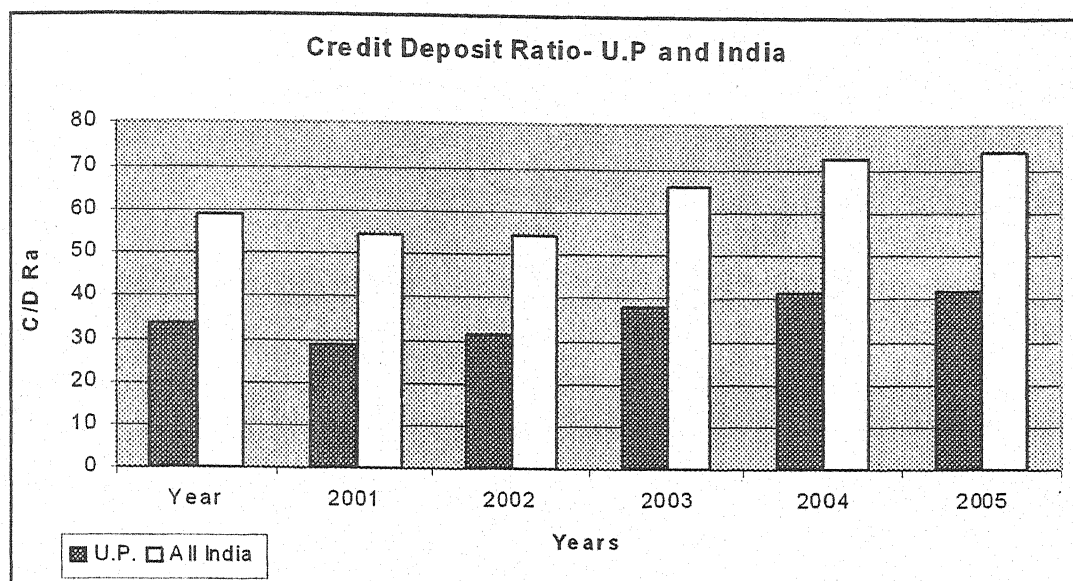
Presently the state road transport sector is predominantly nationalized. Further, even for non nationalized routes, only individual permits for vehicles are allowed. This places excessive burden on UP State Road Transport Corporation (UPSRTC) on one hand, and seriously impacts private sectors' capability to provide viable services on the other hand. There is a need to liberalize the road transport sector so as to encourage private participation. UPSRTC should be provided greater autonomy. Creation of 3-4 smaller entities, by demerger of UPSRTC, to cater to specific regions of the State could also be considered.

## **Financial Infrastructure**

Easy access to credit at affordable interest plays an important role in promoting economic activity. Institutional financial infrastructure in U.P. is very inadequately developed in terms of various indicators such as number of bank branches per lakh of population, per capita credit, credit deposit ratio, etc. For instance, per capita bank credit in 2004 in U.P. was only Rs. 3,605 as compared to Rs. 18,513 in Tamil Nadu and Rs. 29,969 in Maharashtra. The growth of bank credit has been much slower than at the national level, with the result that U.P.'s share in total bank loans came down from 7.5% in 2002 to a meager 3.3% in 2006.. The share of U.P. in bank credit has been consistently lower in U.P. as compared to its share in bank deposits with the result that credit deposit ratio in the state is much lower than at the country level. The ratio was between 30-35 percent till recently, but has shown some improvement after 2004 (Figure 18).

In other words savings in U.P. are being diverted to richer states through the mechanism of the financial institutions rather than contributing to the development of the state (Pandey, 2008).

Figure 18



The picture with respect to loans disbursed through development financial institution in U.P. is even more depressing. U.P.s share in all India loan disbursed through various financial institutions hovers around 2 to 3 per cent except in case of NABARD, LIC and IFCI.

Agricultural credit system in U.P. is in shambles. According to the Farmers Surveys of NSS average outstanding loan per farmer household in Uttar Pradesh was Rs.6,706 as compared to Rs.1,18,495 in Punjab Rs. 23,555 in Haryana and Rs. 12760 in Andhra Pradesh. Despite the State contributing about 13 percent in the agricultural gross domestic product of the country, agricultural loan disbursed in the state was only 5.58 percent of total agricultural loans disbursed in the country during 2002-03. In 2005-06 total institutional credit to agriculture in the state amounted to Rs. 13,768 crore. This comes to only Rs. 8,587 per farmer and Rs. 8,220 per hectare. In per hectare terms the institutional credit in U.P. is also much lower than in states like Punjab and Haryana. The problem of credit is more acute in case of the small and marginal farmers as the banks find the transaction cost of dealing with innumerable small and tiny farmers too high.

The cooperative structure in UP is extremely weak except in a few western districts. The primary agriculture cooperative credit societies are mostly sick. The Central Cooperative Banks too are not in a healthy condition. NSS data on Farmers Survey reveal that in UP only 20 percent of farmer households included a member of a cooperative society and just 6.7 percent had availed themselves of services from a cooperative, while at all India level, about 29 percent of farmer households included a member of a cooperative society and 19 percent had availed themselves of services from a cooperative.

## **Urban Infrastructure**

The major cities of the state are suffering from the problem of poor urban infrastructure. The urban road system is overloaded with heavy traffic and frequent jams due to problems of narrow roads, encroachment, lack of parking places, over bridges, etc. The approach roads to the major industrial estates are of substandard quality. The financial position of the urban bodies is poor causing under investment in urban infrastructure (UP Government 2002). Urban services like power and water supply are in poor shape and under pressure due to continuous in migration from rural areas. Problems of congestion and pollution are acute. Few cities can boast of an attractive infrastructure to attract investment. Efforts are now being made to improve urban infrastructure in selected cities under the Jawarharlal Nehru Urban Renewal Mission.

## **Social Infrastructure**

### **Education**

Education infrastructure has expanded phenomenally over the past decades in the state (UPHDR 2003, Ch. 3). There were 1,34,455 lower primary schools, 40,021 upper primary and 12,766 secondary schools in the state in 2004-05. U.P. has attained the target of having a primary school within one and a half kilometer from every village or settlement. Around 5.30 lakh teachers were employed in these schools. The proportion of female teachers is around 40% at lower primary level but only 21.6% at the secondary level. Around 425 lakh students are enrolled in these schools. Ratio of girls to total students was 47.0% at lower primary and 44.0% at upper primary state, but much lower at 29.6% at the secondary school level.

The teacher student ratio is an important factor affecting quality of education. There

were 92, 11 and 49 students per teacher in the state in 2004-05 at the junior basic, senior basic and higher secondary levels respectively. The government has tried to fill this gap by recruiting a large number of para teachers called shiksha mitra, who are appointed on a temporary basis and receive a fixed stipend. Presently, the state government is in the process of recruiting a large number of school teachers on a regular basis.

No doubt there has been a rapid quantitative expansion of educational services in the state. The quality issue, however, remains a matter of concern especially at the primary level. Independent evaluation studies have revealed that the ability of students in reading, writing and mathematical calculations is very poor. A study by Pratham has revealed that for rural Uttar Pradesh, the quality is very poor in many respects. In reading tests it has been found that in class I, 55.7 percent children can read nothing, 33.0 percent can read letter, but only 8.0 percent can read word Pratham, ASER 2005, Uttar Pradesh).

Recently the National University of Educational Planning and Administration, New Delhi has prepared an Education Development Index (EDI) for primary and upper primary education for different states using 22 indicators related to access, infrastructure, teachers and outcome. This index helps in assessing the relative progress of primary education in the state. It is depressing to note that U.P. ranks 27 in case of EDI at primary level, at rank 30 in case of upper primary level and at rank 29 in terms of combined index out of 35 states. If we compare U.P.s position among the 17 major states only even then U.P. figures at rank 12. Only the states of West Bengal, Orissa, Chhatisgarh, Jharkhand and Bihar lag behind U.P. in this respect.

The higher education system in U.P. consists of 12 state universities, 4 central universities, 3 agricultural universities and one Open University. Besides, there are 9 deemed universities. The state government has passed a bill permitting setting up of private universities. As a result five private universities have come up in the state in recent years. In addition, 124 government degree colleges and 345 non-government aided colleges and 1173 private colleges are functioning in the state. Despite substantial increase in higher education facilities still there is a very large unmet demand for higher education in the state. Only 7 percent of youth are enrolled in higher educational institutions, while a large number of applicants for various courses in universities and colleges are denied admission for want of seats.

As regards institutions imparting technical education, there are 81 government polytechnics and 7 government degree level institutions in the State. The intake capacity at diploma level and degree level in these institutions stood at 8325 and 1724 respectively in the year 2004-05. Besides public sector polytechnics, 25 polytechnics have also been established in private sector. The total intake in polytechnics has now gone up to 1900. A number of private engineering colleges and management institutes have been opened in the state in recent years. At present there are 286 private institutions in the state which are affiliated to the UP Technical University offering B. Tech, MBA, MCA, B. Pharma and M. Pharma courses. The total intake of these institutions is 65,737, out of which the intake for B. Tech is 43,000. One IIT and one IIM are also located in the state. However, given the large size of student population in the state and growing demand for these courses, their intake capacity is still short of requirement.

## Health

Uttar Pradesh has a large public sector health infrastructure comprising one Super Specialty Institution (SGPGI), 7 government medical colleges & hospitals, 53 District Hospitals, 13 Combined Hospitals, 388 Community Health Centres, 823 PHCs, 2817 Additional PHCs apart from 20521 Sub Centres. Government has allowed private medical colleges to be set up in the state. Under this policy 3 medical colleges and hospitals have been opened. In addition, 4913 private hospitals / nursing homes have been established.

Health facilities are, however, inadequate in relation to the population of the state. Each sub-centre in U.P. is covering as many as over 7000 persons against the prescribed norm of 5000. In fact, among the 16 major states of the country Uttar Pradesh occupies the 14th rank. When we look at the rural population covered by a CHC it is found that in U.P. the figure is 4.58 lakhs which is almost four times the norm of 1.20 lakh.

Moreover, the quality of infrastructure available in the PHCs and CHCs in the state is far from adequate and well below the national average for each type of infrastructure facility (Singh et.al. 2005). Most of the PHCs are poorly equipped and do not have even proper drinking water facility. Only 40% of the PHCs in U.P. have electricity connection, while only 20 per cent of them have a labour room and barely 31 per cent have a laboratory for conducting tests.

The ratio of doctors per thousand of population in U.P. is below the national average of 1. The ratio of beds is almost the same as the all India figure of 0.7, but their geographical distribution is highly skewed in favour of the urban areas. The working of the public health system is constrained by a severe shortage of manpower at all levels. The problem of shortages is further compounded by the absenteeism of public sector health personnel in the State. According to a World Bank study 45% of the doctors were found absent from duty in Uttar Pradesh. Interestingly, 14% out of this 45% were on leave; 9% of them were absent without reason; and 22% (i.e. almost half of total absenteeism) of the doctors were absent from the post because they were on official duty.

No wonder only around 10% of the people seek outpatient care from public facilities in rural Uttar Pradesh against the national average of 22%. In the urban areas, only 13% of the people seek outpatient care from public facilities against the national average of 19%. The role of public facilities in patient care is somewhat better. In rural UP, 27% of the people seek inpatient care from public sector against a national average of 42%. 31% of the people seek inpatient care from public sector facilities against the national average of 38%.

There has been a visible deterioration in the functioning of public institutions in the state. The state of primary schools in U.P. has been well illustrated by Dreze and Gazdar (1996). Not only public schools and hospitals are understaffed and ill-equipped, the teachers and hospital staff are often found missing from their duty particularly in the rural areas (UPHDR 2003). Primary school teachers are often put on other official duties like preparation of ration cards, voters list, holding of election, etc., which leaves little time to them to devote to their primary duty of teaching. The decay in public primary education system has led to the mushrooming of private schools even in rural areas. Public health services are also marked by inequality in access to different social groups, the richer sections getting more than proportionate access (World Bank 2002). Public health services are also skewed in favour of the urban areas (UPHDR 2003).

In view of the failure of the public health services, the role of private sector in providing medical and health care in UP remains important. There are 1,57,250 registered private doctors

in the state, which comes to roughly one doctor per lakh of population. Western UP is better placed from the view point of private providers of health services as compared to other regions as more than 40 percent private doctors and dais are concentrated in Western UP. There is increasing commercialization of health services. Private hospitals and nursing homes are coming up especially in the major urban centres. The high cost of private medical care makes the health facilities inaccessible to the poor, who mostly depend on the services of quacks.

### **(iii) Distortionary Policy and Regulatory Regime**

The policy framework in the state is not fully conducive for promoting investment and economic growth. Rigidities in land, labour and product markets constraint investment and restrict economic activity (Basu 2006). The land market is not active. There are restrictions on conversion of agricultural land to non-agricultural land. The non-SCs are prohibited from purchasing land owned by SCs. Land leasing is banned by law, though oral leases prevail in practice.

UP has also been reluctant to bring about changes in the Agricultural Produce and Marketing Act. This prohibits entry of other agencies in agricultural produce markets. A number of other acts put restrictions on procurement, processing and marketing of agricultural produce. All these regulations have been retarding the growth of agro-processing industry in the state, in which U.P. has considerable comparative advantage. The most glaring case is that of sugar industry, which is subject to control in terms of price control on sugarcane as well as sugar. The Ministry of food and civil Supplies, GOI controls the supply of sugar. In addition to support price for sugarcane declared by the GOI, state government also announces its SAP. For political compulsions the price of sugarcane has been going up. All this has affected the profitability of sugar industry and its competitiveness and resulted in problems of over dues of sugarcane payment to the farmers.

The burden of regulatory mechanism and restrictive labour laws continues to be relatively heavier in U.P. and discourages new investment while raising the operating cost of the existing units (Basu 2006, World Bank 2004 and 2007). Nearly 16-20 clearances have to be obtained for starting a new business. Many of the clearances need to be renewed with regular periodicity. Obtaining these clearances is time consuming and cumbersome and creates avenues for rent

seeking. The web enabled system of registration and clearances is not operative in the state unlike Karnataka and A.P. The "single table under one roof" system is not found operative effectively.

The industrial units have to comply with a large number of labour laws, which adds to their compliance cost and proves bothersome especially for the small scale units (Singh et. al. 2005). Restrictive labour laws including retrenchment and exit liabilities further impose burden on the industry.

The burden of the regulatory mechanism and restrictive labour laws adds to the cost of production and makes industrial units in the state less competitive, while discouraging new investment. According to World Bank's investment climate assessment 2004, senior management time spent by firms in U.P. is about 8 percent for dealing with regulations as they face some 9 inspections a year. Such administrative and regulatory burden in day-to-day operations creates adverse perceptions in the minds of investors, in addition to affecting productivity and growth. Studies across states have revealed that Uttar Pradesh is the least preferred destination due to regulatory burden and visits by the government officials (Analyticus 2004).

The minimum wages fixed in U.P. are higher than the levels prescribed in other states, which affects the competitiveness of local industry. Similarly restriction on contract labour poses a problem to the entrepreneurs to adjust to changing demand conditions in the market. Rigid labour laws result in over staffing in U.P. firms, resulting in relative lower productivity.

During the recent years the GOUP have taken several steps towards deregulation and easing of clearance process as well as to reduce the "Inspector Raj," but the ground reality has not changed much as revealed by several field studies and extensive interactions with local entrepreneurs (Singh et. al. 2005). The system of self attestation in the way it is being implemented is not found convenient by the entrepreneurs. Entrepreneurs also find the attitude of the authorities concerned unhelpful. Several provisions in the legislation including Factories Act are antiquated and need to be changed.

#### **(iv) Political and Institutional Constraints**

Congress party remained in power for most of the period during the first four decades after Independence. Most of the Prime Ministers during this period also came from Uttar Pradesh. However, the state level leadership was not forward looking and remained dwarfed by the national level leadership to be able to press for greater flow of central resources to the state. Political scene in U.P. during the last two decades is marked by high degree of political instability. The state is seeing an intense fight among various political parties and outfits for political power. Political mobilization has also been along caste and communal lines rather than on economic and social issues leading to emergence of parties like BJP, SP and BSP (Sudha Pai 2007). Under these circumstances developmental issues have taken a back seat.

Congress party which was in political power was dominated by the upper caste elite, which did not show a genuine concern for the economic and social upliftment of the masses. As Dreze and Gazdar observe "whether we look at health care provisions, or at educational facilities, or at the public distribution system, or indeed at almost any essential public services for which relevant data are available, Uttar Pradesh stands out as a case of resilient government inertia as far as public provisioning is concerned" (Dreze and Gazdar, 1996, p. 53). Even the parties which claim to represent the weaker sections and dalits do not have a clear agenda for their social and economic upliftment (Sudha Pai 2007).

After the political decline of the Congress Party, no political party could obtain a clear majority in the assembly to form the government till the last elections in 2007 when BSP came into power. The various coalition governments which were formed were based on the considerations of sharing the benefits of power rather than based on some clear cut political and social agenda. The marriages of convenience soon broke down due to inherent contradictions and political ambitions with the result that no government could remain in power for the full term. Factionalism within the ruling parties resulted in frequent change in top leadership. The tenure of every Chief Minister remained uncertain and short. Under these circumstances the attention of the Chief Ministers remained on political management rather than on governance and developmental issues. The decision making process consequently suffered.

The failure of the public policy is also reflective of the weak role of the civil society in the state. NGOs and civil society movement have been relatively weak in the state, though there have been some positive developments in this direction in the recent years (UPHDR 2003, Ch 8). Political leadership as well as the academia in the state has also not raised the issue of social progress in a forceful manner to put public pressure on the government. Socially U.P. presents a picture of deep fissures on caste and communal lines. The state has also not witnessed social movements for promoting literacy, caste oppression or women empowerment as have been witnessed in some southern and western states.

There has been a lack of effective decentralisation in the state in spite of the fact that local bodies have existed in the state for long. U.P. has amended its Panchayat Raj and Municipal Bodies Acts to incorporate the mandatory provisions of the 73rd and 74 Constitutional Amendments. Three rounds of elections for the local bodies have been held since these amendments. Some progress in financial devolution has also taken place. The First State Finance Commission recommended that 11% of states own tax revenue should be shared with the local bodies. The Second State Finance Commission raised this share to 12.5%. The state government accepted these recommendations. As a result there has been a steadily increasing flow of financial resources to the local bodies. In addition substantial sums are going to them through the rewards of the central Finance Commissions.

The progress with respect to the transfer of functions and functionaries to the local bodies has, however, remained rather unsatisfactory. Very few functions have been transferred to the PRIs. The primary education and primary health care system has not been brought under the control of the PRIs. Nor a separate cadre of local bodies created. The developmental functions have not been transferred to the urban local bodies as envisaged in the Constitutional amendments and these bodies remain under effective control of state government (see Report of SSFC 2002). The efforts towards empowerment and capacity building of the local bodies have remained weak and halting.

The working of the local level democratic institutions also reflects a picture of factionalism on caste line and the continued dominance of the entrenched social groups (Lieten and Srivastava, 1999; Sudha Pai 2007).

## **(v) Governance Issues**

It is widely agreed that the quality of governance affects the economic growth and development outcomes. The political instability in the State has among other things led to a decline in the quality of governance and seriously eroded its effectiveness. The UPHDR 2003 observes that: "There is a widespread perception that poor governance and widespread corruption remains one of the causes of the poverty, backwardness and low human development of Uttar Pradesh and that an agenda of reform in governance has to be the one of centre pieces of reform in the state."

U. P. is perceived to be one of the most corrupt States in the country as several popular surveys have shown. Perceptions about corruption and law and order impede the flow of investment into the state (Basu 2006, Analyticus 2004). The rent seeking behaviour of decision makers is encouraged by the slow process of deregulation and continuation of controls. The leakages in various government programmes are widespread as several evaluation studies and the reports of CAG reveal.

The quality of civil services has been affected by frequent transfers, short tenures and growing nexus between the political masters and some sections of the bureaucracy. Under the prevailing circumstances the bureaucracy feels demoralized and has lost initiative to take policy decisions in a long term perspective and its capacity for impartial service to the people has deteriorated.

Poor governance has several other dimensions such as absence of systematic policy planning mechanisms, lack of transparency, accountability and responsiveness in public services, continuation of discretionary controls, poor quality of infrastructure and social services, poor service delivery, wasteful public spending, non-performing public sector undertakings, poor grievance redressal mechanism, delays in the legal system. etc. The poor governance particularly affects the weaker sections, who are at the receiving end of the system (World Bank 2002). The incidence of cases of atrocities against women and dalits happens to be much higher in U.P. as compared to other states.

Governance reform has been on the agenda of the state government and several laudable efforts have been made in this direction. In March 2000, GOUP came out with a Policy Paper on Reforms in Governance. The proposed reforms were to cover: (a) role redefinition of the

government, (b) bringing transparency and accountability to government functioning by increasing people's access to information, (c) quick grievance removal and vigorously combating corruption, (d) renewal of civil services through right-sizing, restructuring and strict performance appraisals, (e) institutional as well as administrative decentralization, (f) financial management reforms, (g) public participation in governance through voluntary action mobilization, etc.

Deregulation and divestment were identified as thrust areas for which a High Powered Deregulation Committee and Divestment Commission were set up. U.P. was among the first states to introduce reforms in the power sector. The State Regulatory Commission for Electricity was set up in 1998. The UP Electricity Reforms Act was passed in 1999. UPSEB was unbundled into three companies and KESA transferred to a corporate entity in 2003. The State Commission on Information was set up in 2006. The state is also under the process of restructuring its irrigation management system by establishing water users association. Public-private partnership is being promoted in the field of economic and social infrastructure. Over the last decade the different state governments have come out with Policy Papers on major sectors of the state like power, agriculture, water, tourism, roads, etc.

A critical look at these reform measures would reveal that the reform process has been half hearted and outcomes have been far from expected. The performance of the power sector remains worrisome with mounting financial losses and reliance on borrowings. The disinvestment process has not been transparent and has been bogged down in litigation. Irrigation management system continues to be state controlled and bureaucratic as before.

A major issue with policy making process has been the lack of stability. Often the policy declarations of the previous government are rescinded by the succeeding government or remain unimplemented. Sometimes policies are announced in haste and then withdrawn in face of opposition by the vested interests. The latest and a most glaring example is the withdrawal of the agricultural policy announced by the present government within a week of its announcement. In the absence of clear cut and stable policy directions, private investors are hesitant to come to the state.

## **VII. The Way Forward**

Our analysis of the development experience of U.P. clearly demonstrates that U.P. continues to lag behind in the race of development and the economic distance between the rest of India and U.P. has been continuously widening. The analysis has established that three factors have been critical in this respect. The first is the low levels of investment in the state both in the public and the private sectors. The second, which has also contributed to the first factor, is the declining quality of governance reflected in poor law and order situation, declining quality of public services, ill maintained infrastructure, rampant corruption and rent seeking. Thirdly, In the face of political fracture in the state and social mobilization based on caste and religion, development agenda has slipped back from the priority of the political leadership.

Clearly, the continuation of such a situation is neither in the interest of the people of the state nor that of the country. Corrective measures have to be taken up put U.P. on the path of rapid economic development. A few suggestions in this direction are offered below.

### **Put Development at the Centre of Political Agenda**

If U.P. has to come out of its present morass and move up on the road to rapid development along with the rest of the nation, the first step is to put development on the central agenda of the government and the political parties. A consensus needs to be built up on the development issues confronting the state. This calls for a change in the attitude and priorities of the highest political leadership. Recent experience shows that the states where the chief ministers have put the development agenda on the forefront have moved rapidly ahead.

### **Create a Conducive Environment to Attract Investment in the State**

To accelerate the growth rate of the economy larger investments in the state are needed. For that a suitable investment climate has to be created and the bottlenecks faced by the industry have to be removed. Following steps are urgently required for this:

(i) The issue of infrastructure bottlenecks has to be addressed with high priority. Improvement in power situation would remain critical for U.P.'s growth in years to come. Heavy investment is required in the generation as well as the distribution system. Improvement

in road network and better connectivity to villages are needed to unleash the growth potential of the state particularly in the rural areas.

(ii) Initiatives have to be taken at the policy and institutional levels. Procedures have to be streamlined and simplified and regulatory burden eased. System of automatic and time bound clearances through web enabled systems has to be put in place as some other states have done. Discretionary controls have to be minimized to reduce opportunities for rent seeking.

(iii) The distortionary policies affecting the working of the land, labour and product markets, which are constraining the growth of industry, have to be set right. If U.P. wants to attract more investment it has to set up its policy regime right. Clear policy directions and stability of policy are critical in this context.

(iv) Apart from investment in infrastructure, institutional reforms are needed and the organizational structures have to be reformed. The management of critical infrastructure like power, roads and irrigation has to be professionalized. The excessive state control on the organizations has to be eased and operational autonomy has to be provided to the organizations, within the set parameters by the state, so that they are able to take decisions based on economic rather than political considerations. The road, transport and irrigation management systems should be debureaucratized and restructured as corporate bodies with autonomous management bodies with representatives of various stakeholders. The tariff policies would also have to be rationalised.

## **Introduce Effective Governance Reforms**

Putting in place an effective governance reforms process will be critical for future economic development of the state. Improvement in law and order clearly deserves a high priority. Civil service reforms are another key priority. The state government already has a blue print for that which has to be carried out with clear focus and commitment. Greater transparency and participation in decision making, security of tenures, effective check on corruption are among the key areas to be addressed.

Determined efforts are needed to improve the quality of public services especially in education and health sectors. Infrastructure of public schools and hospitals needs to be improved.

Availability of equipment, medicines, etc. has to be ensured in the public health institutions. The issues of shortage of staff and their training have to be addressed on priority basis.

The major issue, however, is that of ensuring that the teachers and doctors and the supporting staff are present to perform their expected functions. A more realistic duty assignment along with a more effective supervisory system has to be put in place along with a strong system of incentives and disincentives. Involvement of peoples' representatives and watchdog committees would help in ensuring greater accountability and responsibility.

### **Strengthen the Process of Decentralisation**

Finally, the process of decentralization, which has come to a standstill in the state during the last decade, has to be speeded up. The functions earmarked for the local bodies in the Constitution should be transferred to them in a time bound frame and these bodies have to be truly empowered with funds and functionaries to discharge their constitutional responsibility. Measures for capacity building of the local bodies have to be carried out in right earnest. Only an empowered decentralized polity would be able to bring administration closure to the people, improve the functioning of the grass roots level institutions and make them responsive to peoples' needs.

The challenge of putting U.P. on the high growth path is indeed formidable. The challenge is not merely of more funds and financial resources but that of institutional and policy reform. The leadership and people of the state have to rise to meet this challenge with determination and clear vision. The state is presently placed in a better position for such a take off as the state is no longer faced with the political instability and fiscal crisis, which crippled the state economy in the past decades. A stable government with a strong chief minister is presently in place. If the present dispensation sets its priorities right, U.P. can hope for a turn around on the economic front.

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## Annexure 1

### Classification of U.P. Districts According to the Composite Index of Development, 2005

#### *Most Developed (CID 120 or above)*

1. Gautam Buddha Nagar	405.13	5. Lucknow	136.73
2. Ghaziabad	185.63	6. Muzaffar Nagar	125.05
3. Meerut	149.48	7. Bijnor	121.92
4. Kanpur Nagar	141.43		

#### *High Medium Development Districts (CID 100 to 120)*

8. Saharanpur	119.37	19. Aligarh	105.71
9. Mathura	119.05	20. Pilibhit	105.49
10. Agra	116.00	21. Sonbhadra	105.42
11. Jyotiba Phule Nagar	114.58	22. Bagpat	104.75
12. Varanasi	114.29	23. Farrukhabad	103.95
13. Jhansi	113.82	24. Etawah	102.70
14. Rampur	113.44	25. Jalaun	101.56
15. Muradabad	110.73	26. Firozabad	101.51
16. Bulandshahr	110.66	27. Shahjahanpur	101.37
17. Kanpur Dehat	106.95	28. Kannauj	100.59
18. Bareilly	106.84	29. Hathras	100.32

#### *Low Medium Developed Districts (CID 80 to 100)*

30. Lakhimpur Kheri	98.71	44. Badaun	87.07
31. Mahoba	98.40	45. Rae Bareli	86.76
32. Auraiya	96.57	46. Unnao	86.68
33. Gorakhpur	95.60	47. Ballia	84.36
34. Allahabad	94.11	48. Basti	83.43
35. Faizabad	93.35	49. Pratapgarh	83.26
36. Mainpuri	92.87	50. Mirzapur	83.03
37. Barabanki	92.23	51. Kushinagar	82.62
38. Lalitpur	90.92	52. Ambedkarnagar	82.58
39. Sultanpur	90.71	53. Deoria	82.32
40. Hamirpur	90.67	54. Mau	81.58
41. Sitapur	90.09	55. Chandauli	81.43
42. Etah	89.76	56. Sant Ravidas	
43. Fatehpur	80.62	Nagar	88.46

#### *Most Backward Districts (CID 80 and below)*

57. Hardoi	79.75	64. Gonda	76.92
58. Bahraich	79.01	65. Jaunpur	76.89
59. Ghazipur	78.87	66. Kaushambi	76.85
60. Banda	78.82	67. Balrampur	73.48
61. Maharajganj	78.78	68. Chitrakoot	69.44
62. Siddharth Nagar	77.85	69. Sant Kabir Nagar	69.25
63. Azamgarh	76.95	70. Shrawasti	63.47

Source: Planning Department, Govt. of U.P., *Annual Plan 2006-07*, Ch. 7.

## Annexure 2

### Ranking of Investment Attractiveness (Perceptions) 2001: Across States and Categories

State	Corruption Ranking	Infrastructure Ranking	Reform Attitude Ranking	Property Rights Ranking	Responsiveness Ranking	Simplicity of Rules Procedures Ranking	Overall Ranking
Himachal Pradesh	1	9	1	1	3	4	1
Andhra Pradesh	6	3	2	8	1	8	2
Gujarat	11	2	5	3	2	6	3
Orissa	10	5	4	5	5	1	4
Rajasthan	3	1	6	6	4	2	5
Karnataka	15	12	3	13	6	12	6
Uttaranchal	2	6	8	4	9	5	7
Punjab	9	11	7	10	12	10	8
Chhatisgarh	5	4	11	9	8	7	9
Assam	8	17	12	2	7	18	10
Tamil Nadu	7	10	10	14	11	3	11
Kerala	13	16	9	16	15	13	12
Uttar Pradesh	.	15	14	15	13	9	13
Madhya Pradesh	4	18	16	11	10	16	14
West Bengal	18	13	13	17	14	14	15
Maharashtra	14	7	15	12	16	15	16
Jharkhand	16	8	17	7	18	17	17
Haryana	12	14	18	18	17	11	18
Bihar	17	19	19	19	19	.	19

\*In descending order of overall rating 2001,

Note: Jharkhand has a low sample size. Missing and unusable responses account for the other missing rankings.